



2013 Second Quarter Report



HIGHLIGHTS

- Revenues in 2Q13 were 5,465 TUSD compared to 2,557 TUSD for 2Q12.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2Q13 were positive with 1,304 TUSD compared to -9,850 TUSD for 2Q12.
- Earnings before Interest and Tax (EBIT) for 2Q13 were -253 TUSD compared to -47,523 TUSD for 2Q12.
- Close to cash flow neutral in 2Q13 with a cash burn of only 42 TUSD compared to 4,351 TUSD in 1Q13.
- Cash flow from operating activities in 2Q13 is positive with 808 TUSD compared to -2,503 TUSD in 1Q13.
- Cash position at end of 2Q13 amounts to 2,126 TUSD.
- The licensed LEGO® online game developed in Oslo based on the LEGO® Minifigures line is currently on schedule and reached its friends & family beta milestones in 2Q13.
- At Gamescom in Cologne the Company revealed the LEGO® Minifigures online game for the first time. The initial feedback is highly positive on both speed of production and game play, as well as "look and LEGO® feel". See presentation for details and quotes.
- The two work for hire LEGO® games developed in Montreal have reached all milestones and are currently on schedule.
- A brand new major content upgrade to *The Secret World*, 'Issue 7 –A Dream to Kill', was developed during 2Q13 and released in July.
- The five years anniversary events for *Age of Conan* were launched in 2Q13 with positive uptake amongst new and old players resulting in high activity.
- The restructuring process initiated in early January 2013 was completed during 2Q13.
- As per the above, the Company expects the positive effect from the restructuring to materialize in full in the second half of the year. Already, significant cost savings were realized in 2Q13 and the operating costs decreased by 412 TUSD compared to the previous quarter, and by 8,246 TUSD compared to 2Q12.
- 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® Minifigures line to target these fast growing and

exciting new platforms. The project is going according to plan and reached all milestones in the first half of 2013.

- The Company continues to work actively on securing more games to be developed as work for hire in Montreal.

FINANCIALS

- Revenues, positively impacted by sales of *The Secret World* were 5,465 TUSD in 2Q13, compared to 2,557 TUSD in 2Q12.
- EBITDA, positively impacted by revenues from *The Secret World* and cost savings was 1,304 TUSD in 2Q13 compared to -9,850 TUSD for 2Q12.
- Operating profit (EBIT) was -253 TUSD for 2Q13 compared to -47,523 TUSD for 2Q12.
- Result for the period was positive 251 TUSD compared to -49,190 TUSD for 2Q12.
- Close to cash flow neutral in 2Q13 with a cash burn of only 42 TUSD compared to 4,351 TUSD in 1Q13.
- Cash flow from operating activities in 2Q13 is positive with 808 TUSD compared to -2,503 TUSD in 1Q13.
- Cash position at end 2Q13 amounts to 2,126 TUSD.
- Equity decreased to negative -869 TUSD in 2Q13 as a result of a foreign exchange translation difference reported in Other comprehensive income.
- It is however considered that the revenue potential of the current and future games as well as the cost saving measures undertaken since 4Q12 will improve the profitability of the Company and will lead to an increase of the equity position.
- The company also continues to evaluate the current and potential sources of financing, such as the existing equity facility as well as other opportunities of raising capital via financial arrangements including equity which could also lead to an increase in the equity position.

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 developed on a work for hire basis.
- The Studio in Oslo will continue to focus on the previously announced licensed LEGO® Minifigures 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 is working to secure more games strengthening further the strategy for all business units.

LARGE-SCALE MMOs

- The second quarter with the new buy-to-play business model for *The Secret World* continues to show higher sales and increased game activity.
- The second major content upgrade to use the new business model for *The Secret World*, 'Issue 7 – A Dream to Kill', was released in July with similar good up-take rate amongst players.
- Player numbers and revenues from *Age of Conan* and *Anarchy Online* were stable in 2Q13.
- 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 the numerous in-game activities and other initiatives have led to increased activity.
- Further updates to *Age of Conan* 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® Minifigures online game produced in Oslo is on schedule with several significant deliveries during 2Q13 with the friends & family beta milestone being the most important. This is a licensed game where a normal license deal applies between the Company and LEGO®. Under these circumstances Funcom assumes the investment and development risk and keeps most of the revenues in return.
- *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

- The Company continues to develop *Fashion Week Live* 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 last half year 2013.

MISCELLANEOUS

Transactions with related parties

Loans granted to the company by its majority shareholder KGJ Investments S.A., SICAV-SIF were restructured in 2Q13. All of the proposed new loan terms were adopted by an EGM and a bondholder meeting held in April 2013. The parties have agreed that the Company will make the first installment payment on the senior loan on 29 Dec. 2013.

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 of 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 3Q13 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, 29 August 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. - SECOND QUARTER FINANCIALS OF 2013
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Figures in TUSD)

	Second Quarter		Accumulated		Full Year
	2013	2012	2013	2012	2012
Revenue	5,465	2,557	11,803	4,850	23,599
Operating expenses	-4,161	-12,407	-8,733	-19,212	-33,311
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	1,304	-9,850	3,070	-14,362	-9,712
Depreciation, amortization and impairment charges	-1,558	-37,674	-3,996	-38,992	-49,375
Total operating expenses	-5,718	-50,081	-12,729	-58,203	-82,686
Operating result ("EBIT") from continuing operations	-253	-47,523	-926	-53,353	-59,087
Share of result from equity-accounted entities	-127	1	-105	-33	-33
Net financial items	702	-1,442	1,288	-1,656	-2,979
Profit (loss) before income taxes from continuing operations	322	-48,964	257	-55,043	-62,099
Income taxes	-71	-226	-80	-291	-116
Profit (loss) from continuing operations	251	-49,190	177	-55,334	-62,215
Profit from discontinued operation, net of tax		0	0	0	0
Profit (loss) for the period	251	-49,190	177	-55,334	-62,215
Attributable to shareholders of Funcom N.V.	251	-49,190	177	-55,334	-62,215
Earnings per share basic (USD)	0.00	-0.79	0.00	-0.93	-0.99
Earnings per share fully diluted (USD)	0.00	-0.79	0.00	-0.93	-0.99

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	251	-49,190	177	-55,334	-62,215
Foreign exchange translation difference	-1,200	214	-2,521	124	4
Other				0	
Total comprehensive income for the period	-950	-48,976	-2,344	-55,209	-62,211

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Figures in TUSD)

	30 June		31 Dec.	
	2013	2012	2012	2012
ASSETS				
<i>Non-current assets</i>				
Deferred tax assets		181	353	232
Intangible assets		12,701	19,151	13,729
Tangible fixed assets		633	1,888	810
Financial investments		784	888	947
<i>Current assets</i>				
Trade receivables		2,533	3,170	2,723
Prepayments and other assets		6,756	4,740	6,793
Cash and cash equivalents		2,126	16,928	8,048
Total assets		25,713	47,118	33,282
EQUITY AND LIABILITIES				
<i>Equity</i>				
Share capital		3,424	3,419	3,424
Reserves		146,910	149,387	149,211
Retained earnings		-151,203	-145,082	-151,380
<i>Liabilities</i>				
Deferred tax liabilities		55	299	55
Long-term liabilities		12,730	14,094	4,728
Deferred revenue		5,494	6,993	7,968
Short-term loans and borrowings		5,554	8,810	12,870
Other short term liabilities		2,749	9,198	6,406
Total equity and liabilities		25,713	47,118	33,282

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Figures in TUSD)

	Second Quarter		Period ended 30 June		Full Year
	2013	2012	2013	2012	2012
Cash flow from operating activities					
Profit (loss) before income tax	322	-48,964	257	-55,043	-62,099
Adjustments for:					
Depreciation, amortization and impairment	1,558	37,674	3,996	38,992	49,375
Share-based payments	77	159	220	382	815
Share of result from equity-accounted entities	127		105	33	33
Effect of exchange rate fluctuations	373	633	-900	351	555
Changes in working capital	-1,648	8,258	-5,372	9,445	8,521
Net cash from operating activities	808	-2,241	-1,694	-5,840	-2,800
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,298	-4,164	-3,038	-8,477	-13,804
Investment in/loan to (from) equity-accounted entities	-93	-75	-182	-216	-850
Net cash from investing activities	-1,391	-4,239	-3,221	-8,693	-14,654
Cash flow from financing activities					
Net proceeds from issue of share capital		10,109		10,853	10,953
Proceeds / repayments from (of) borrowings and leases	541	1,505	522	1,505	-5,234
Net cash from financing activities	541	11,614	522	12,359	5,719
Change in cash and cash equivalents	-42	5,133	-4,393	-2,175	-11,735
Cash and cash equivalents, beginning of period	3,693	12,234	8,048	19,428	19,428
Effect of exchange rate fluctuations	-1,526	-439	-1,529	-325	355
Cash and cash equivalents, end of period	2,126	16,928	2,126	16,928	8,048

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Figures in TUSD)

	30 June		Full Year	
	2013	2012	2012	2012
Opening balance	1,255	42,918	42,918	42,918
Total comprehensive income for the period	-2,344	-55,209	-62,211	-62,211
Equity issues		20,713	20,813	20,813
Conversion rights reserve		-1,080	-1,080	-1,080
Share-based payments	220	382	815	815
Closing balance	-869	7,724	1,255	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 six months ended 30 June 2013 were approved for issue by the Supervisory Board on 29 August 2013.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company for the first half of 2013 is in line with the trends presented in the 2012 annual report where revenues from existing games remain stable while operating costs decrease significantly as a result of internal reorganization. The successful completion of the loan restructuring as well as the revenue potential of current and future games and the opportunities of raising additional capital also remain consistent with the expectations at the end of 2012. Therefore it was concluded that there were no pervasive or material changes in 2Q13 that could negatively impact the management's assumptions behind the forecasted financial performance of the Company. As a result, the unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 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 accumulated tax losses 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 4,666TUSD convertible bonds, 7,979TUSD interest bearing loan and 85 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 June 30, 2013 sixty two bonds are still outstanding.

As of April 2013, following the approval of an EGM and a bondholder meeting, the maturity date of the convertible bonds was extended to 22 December 2015 and the conversion price was revised to 0.37 USD per share. In addition, the coupon was decreased to 5% with no interest payments until maturity (or earlier conversion of the bonds) when the accrued interest will become due in either cash or shares at the option of the bondholders, using the same conversion price of 0.37 USD per share.

The interest-bearing loan from KGJ Investments S.A.(former Stelt Holding N.V.) with a carrying value of 9,979 TUSD and face value of 10,000 TUSD was due on 29 December 2013 and was presented as short-term liability in the 2012 annual report and the 1Q13 report. Following the approval of the EGM held in April 2013 the loan is now repayable in three installments until July 2015 with only 2,000 TUSD due within twelve months of the date of this quarterly report. Therefore 7,979 TUSD were reclassified to Long term liabilities. The interest bearing loan was originally granted in conjunction with the issuance of 5 million warrants to KGJ Investments S.A. giving right to obtain the same number of common shares of Funcom N.V. at a price of 1.67 USD per share. After the EGM in April 2013 the strike price was decreased to 0.37 USD per share. In addition, KGJ Investments S.A. was issued 10 million additional warrants giving right to obtain the same number of common shares of Funcom N.V. at a price of 0.37 USD per share.

The carrying value of the interest-bearing debt at the end of 1Q13 amounts to approximately 16,924 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

	Second quarter		Half year		Full year
	2013	2012	2013	2012	2012
Average number of shares (1000)	66,497	62 218	66,497	59 554	63,044

12 Other comprehensive income

In accordance with IAS 21, the Company reported in Other comprehensive income a foreign exchange loss of 2,521 TUSD which resulted from the translation of an amount payable to the Company by a foreign subsidiary as well as the translation of foreign operations to presentation currency.

13 Equity

The foreign exchange translation loss reported in Other comprehensive income in 2013 decreased the equity to -869 TUSD in comparison to 1,255 TUS at the end of 2012. It is however considered that the revenue potential of the current and future games as well as the cost saving measures undertaken since 4Q12 will improve the profitability of the Company and will lead to an increase of the equity position. The company also continues to evaluate the current and potential sources of financing, such as the existing equity facility as well as other opportunities of raising capital via financial arrangements including equity which could also lead to an increase in the equity position.

14 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 January - June		Segment profit (loss) *) January - June	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Large-scale MMO's	10,318	4,384	5,765	-2,380
Free-to-play MMO games	516	466	268	178
Mobile and tablet games and other WFH	969		405	
Total	11,803	4,850	6,438	-2,202
General and administrative expenses			-3,368	-12,160
Depreciation, amortization and impairment charges			-3,996	-38,992
Share of result from equity-accounted entities			-105	-33
Net financial items			1,288	-1,657
Profit (loss) before tax (from continuing operations)			257	-55,043

	Revenue from external customers April - June		Segment profit (loss) *) April - June	
	2013	2012	2013	2012
Large-scale MMO's	4,708	2,531	2,679	-1,302
Free-to-play MMO games	147	550	100	239
Mobile and tablet games and other WFH	610		270	
Total	5,465	3,081	3,049	-1,062
General and administrative expenses			-1,745	-8,787
Depreciation, amortization and impairment charges			-1,558	-37,674
Share of result from equity-accounted entities			-127	-1
Net financial items			702	-1,442
Profit (loss) before tax (from continuing operations)			322	-48,964

*) 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	Mobile, tablet and WFH
Segment assets as at 30 June 2012	17,152	1,770	n/a
Segment assets as at 30 June 2013	12,510	-	-

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

Directors' responsibility statement

The members of the Management Board, as required by section 5:25d, paragraph 2, under c of the Dutch Financial Supervision Act (Wet op het financieel toezicht), confirm that to the best of their knowledge:

The Consolidated Interim Financial Statements for the six months ended 30 June 2013 give a true and fair view of the assets, liabilities, financial position and profit or loss of Funcom N.V. and its consolidated companies, and

The Interim Directors' Report gives a true and fair view of:

- the development and performance of the business during the first six months of the financial year of Funcom N.V. and its consolidated companies, and
- the relevant share transactions with related parties during the first six months of the financial year.
- the expected development and performance of the business, provided that the interests of Funcom N.V. and its consolidated companies are not harmed by disclosure, with particular attention for the investments, and the circumstances of which the development of revenues and profitability are dependent.
- the relevant risks and uncertainties for the remaining six months of the financial year.

Badhoevedorp, The Netherlands
29 August, 2013

The Management Board of Funcom N.V.

Ole Schreiner (member of the board and CEO)

Pieter van Tol (member of the board)