



2013 Fourth Quarter Report

The Funcom Group
Funcom N.V. and subsidiaries

HIGHLIGHTS

- Revenues in 4Q13 are 4,270 TUSD compared to 7,786 TUSD in 4Q12, the post-launch quarter of *The Secret World*.
- Revenues of 4,270 TUSD are lower than 5,336 TUSD in 3Q13 mainly due to a decrease in the amount recognized revenues from previously recorded deferred billings of *The Secret World* as well as weaker sales following the increased competition as described in the 3Q13 report.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 4Q13 is 233 TUSD and has remained positive since launch of *The Secret World*, even though it is lower compared to 1,729 TUSD in 3Q13 and 2,016 TUSD for 4Q12 due to the decrease in revenue.
- Earnings before Interest and Tax (EBIT) for 4Q13 were -4,779 TUSD compared to 826 TUSD in 3Q13 and -5,947 TUSD for 4Q12. The decrease compared to 3Q13 is mainly due to 4,200 TUSD of impairment charges on both *The Secret World* game and the underlying technology.
- Cash position at the end of 4Q13 amounts to 2,582 TUSD compared to 3,498 TUSD at end of 3Q13. The reduction in cash is explained mainly by the investment required for the development of the licensed LEGO® online game developed in Oslo based on the LEGO® Minifigures line, as well as the continuous investment in the underlying technology platform *Dreamworld* to make it compatible across multiple platforms including tablets.
- The three main titles of Funcom live games portfolio (*The Secret World*, *Age of Conan* and *Anarchy Online*) remain cash flow positive.
- In 1Q14 Funcom NV was charged by Økokrim (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) on suspicion of infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012 with regards to information given to the market (market manipulation) and maintenance of the required list of persons who are given access to inside information. The Company is cooperating fully with ØKOKRIM. See 4Q13 presentation for more information.
- During 4Q13 the development team of the licensed LEGO® *Minifigures Online* game conducted the first of several Closed Beta tests. The feedback from testers was positive on gameplay and visuals. Feedback on usability, including user interface and how you interact with it was mixed, and the team has acted to address these issues in 1Q14. A revised user interface will be available in the next Closed Beta phase. The game is currently on schedule to reach its Open Beta phase in summer 2014.

- The *Dreamworld* technology platform development focused on tablets during 4Q13. An Android and an iOS/iPad version are scheduled for 2014.
- The refinement of the business model in 1Q14, combined with continuous targeted marketing programs during 4Q13 and beyond has led to an increase in activity in *The Secret World*. The team is currently working on a major upgrade pack 'Issue 9' to be released later this spring.

FINANCIALS

- Revenues of 4,270 TUSD are lower than 5,336 TUSD in 3Q13 mainly due to a decrease in the amount recognized in revenue from previously recorded deferred billings of *The Secret World* as well as a slight decrease in direct revenues from the live games. The revenues are also lower compared to 7,786 TUSD in 4Q12, which was the post-launch quarter for *The Secret World*.
- EBITDA of 233 TUSD in 4Q13, and has remained positive since the launch of *The Secret World* impacted by the cost savings. It has however declined in 4Q13 compared to 1,729 TUSD in 3Q13 and 2,016 TUSD in 4Q12 mainly due to the decrease in revenue from *The Secret World*.
- Operating profit (EBIT) of -4,779 TUSD for 4Q13 was lower than 826 TUSD in 3Q13 mainly due to 4200 TUSD of impairment charges on *The Secret World* game and the underlying technology. Please, refer to note 2.14 in the 2012 Annual report for Funcom's accounting policy with regards to Impairment and to note 11 with regards to the calculation of the recoverable amount used to determine impairment losses. The operating profit increased by 1,168 TUSD compared to 4Q12 due to the combined effect of cost savings and lower amortization charges offset by decrease in revenue.
- Result for the period was -4,822 TUSD compared to 108 TUSD in 3Q12 and -6,433 in 4Q12.
- Cash position at the end of 4Q13 amounts to 2,582 TUSD compared to 3,498 TUSD end of 3Q13.
- Equity is negative -5,561 TUSD at the end of 4Q13 mainly as a result of an impairment charge of 4,300 TUSD and a foreign exchange translation difference of 2,770 TUSD for the full year, reported in "Other comprehensive income".
- In January 2014 KGJ Investments S.A., SICAV-SIF, Funcom's main shareholder, exercised 5,000,000 warrants and subscribed for the same amount of shares in Funcom N.V. The total proceeds of 1,850 TUSD were used for a partial repayment of the related interest-bearing loan (see Notes to the interim report). The transaction also increased equity by 1,850 TUSD.
- The same main shareholder still holds 10,000,000 warrants with expiry date end 2015.
- It is also 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.
- In December 2013 the Company reimbursed 2,000 TUSD of interest-bearing loan. The carrying amount of total interest-bearing debt amounts to approximately 17,387 TUSD at year end, where 4,902 TUSD are convertible bonds with due date end 2015 and a nominal amount of 6,200 TUSD.
- In November 2013 the Company negotiated new loan financing with its main shareholder KGJ Investments S.A., SICAV-SIF in the amount of 5,500 TUSD. The first installment of 3,000 TUSD was received in December 2013. The other two installments of 1,250 TUSD each will become available in 1Q14 and 2Q14 respectively.

UPDATE ON THE FUNCOM'S STRATEGY

- As announced previously The Company initiated a restructuring process to better align the company with the current market, make the company more efficient, and enable it to quickly adapt to new business trends.
- This restructuring process is based on the new Company's strategy announced in 2Q12 and have the following main elements:
 - Building mid-core focused on-line games
 - Smaller initial budgets and shorter development time. Initial cost of 3-6 MUSD
 - Smaller more agile development teams
 - Make the proprietary underlying *Dreamworld* technology platform compatible across multiple gaming platforms
 - Build games around a known brand or other strong intellectual property
- *LEGO® Minifigures Online* is the first game to be developed under the new strategy. The long term goal is to produce titles in parallel releasing more than one game a year.
- The above mentions are forward looking statements and goals and are subject to change along with industry trends. We strongly encourage all investors, analysts, press and others to investigate and analyze the gaming market in general, and the "free to play" market in particular. The industry has drastically changed during the last years. It is the Company's clear goal to align itself with the market, leverage its technology and know-how and adapt its portfolio of products to address the current needs as well as future changes.

LARGE-SCALE MMOs

- In 4Q the Company continued to experience increased competitive pressure in the segment leading up to Christmas. Several blockbuster games were released reducing in-game activity and revenue in all our games.
- During 4Q the Company initiated several marketing campaigns and other activities to increase the activity level within the live games.
- A new major content upgrade to use the business model for *The Secret World, Issue 9* – is currently in production with target release 2Q14.
- Player numbers and revenues from *Age of Conan* and *Anarchy Online* were relatively stable in 4Q13.
- The focus for the development of these games is to continue adding new features and new content that extend player engagement time.
- 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 to release in Open Beta summer 2014 with several other significant milestones during 4Q13, the first Beta with external testers being the most important. Feedback from testers was good on gameplay and visuals and mixed on usability.
- The development team has in 4Q13 and 1Q14 worked to address these issues, and a revised user interface will be available in the next Closed Beta phase.
- The *LEGO® Minifigures Online* game is a licensed game where a normal license deal applies between the Company and LEGO®. Under these circumstances Funcom assumes the investment and development risks and keeps most of the revenues in return.
- The Company also wants to underline that the *LEGO® Minifigures Online* game will be released to market with a "free to play" business model, which is very different from the two previously launched titles *Age of Conan* and *The Secret World* which both had a subscription based business model.
- The Company strongly encourage investors and others to seek information about "free to play" models, how a game in this segment is released to the market, and the difference in revenue streams compared to traditional client fee for packaged game and subscription based models.
- The Company continues to work actively in 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 one LEGO® game developed in the Montreal studio reached all milestones and was on schedule and budget during 4Q13.

MISCELLANEOUS

Transactions with related parties

- Loans granted to the company by its main 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.
- In December 2013 the Company reimbursed 2,000 TUSD of interest-bearing loan.
- In November 2013 the Company negotiated new loan financing with its main shareholder KGJ Investments S.A., SICAV-SIF in the amount of 5,500 TUSD. The first installment of 3,000 TUSD was received in December 2013.
- In January 2014 KGJ Investments S.A., SICAV-SIF exercised 5,000,000 warrants and subscribed for the same amount of shares in Funcom N.V. The total proceeds of 1,850 TUSD were used for a partial repayment of the interest-bearing loan (see Notes to the interim report). The transaction also increased equity by 1,850 TUSD.

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* and the soon to be launched licensed LEGO® *Minifigures Online* game being the most important.
- In 1Q14 the Company expects operating costs to increase and revenues to be comparable or slightly lower than 4Q13.

- The increased operational cost will be mainly due to expenses related to the ramp up of marketing and development activities leading up to Open Beta for LEGO® *Minifigures Online*, as well as to the costs related to the ØKOKRIM charge.

Badhoevedorp, The Netherlands, 27 February 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. - FOURTH QUARTER FINANCIALS OF 2013
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Fourth Quarter | | Accumulated | |
|--|----------------|---------------|---------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Figures in TUSD)</i> | | | | |
| Revenue | 4,270 | 7,786 | 21,409 | 23,599 |
| Operating expenses | -4,037 | -5,770 | -16,377 | -33,311 |
| Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) | 233 | 2,016 | 5,032 | -9,712 |
| Depreciation, amortization and impairment charges | -5,012 | -7,963 | -9,912 | -49,375 |
| Total operating expenses | -9,049 | -13,733 | -26,289 | -82,686 |
| Operating result ("EBIT") from continuing operations | -4,779 | -5,947 | -4,880 | -59,087 |
| Share of result from equity-accounted entities | -58 | -130 | -135 | -33 |
| Net financial items | 92 | -552 | 635 | -2,979 |
| Profit (loss) before income taxes from continuing operations | -4,746 | -6,628 | -4,380 | -62,099 |
| Income taxes | -77 | 196 | -158 | -116 |
| Profit (loss) from continuing operations | -4,822 | -6,433 | -4,538 | -62,215 |
| Profit from discontinued operation, net of tax | | 0 | 0 | 0 |
| Profit (loss) for the period | -4,822 | -6,433 | -4,538 | -62,215 |
| Attributable to shareholders of Funcom N.V. | -4,822 | -6,433 | -4,538 | -62,215 |
| Earnings per share basic (USD) | -0.07 | -0.10 | -0.07 | -0.99 |
| Earnings per share fully diluted (USD) | -0.07 | -0.10 | -0.07 | -0.99 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | | | |
|--|---------------|---------------|---------------|----------------|
| Profit (loss) for the period | -4,822 | -6,433 | -4,538 | -62,215 |
| Foreign exchange translation difference | -651 | -88 | -2,770 | 4 |
| Total comprehensive income for the period | -5,473 | -6,521 | -7,308 | -62,211 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | 31 December | |
|-------------------------------------|---------------|---------------|
| | 2013 | 2012 |
| <i>(Figures in TUSD)</i> | | |
| ASSETS | | |
| <u>Non-current assets</u> | | |
| Deferred tax assets | | 232 |
| Intangible assets | 9,305 | 13,729 |
| Tangible fixed assets | 544 | 810 |
| Financial investments | 325 | 947 |
| <u>Current assets</u> | | |
| Trade receivables | 2,195 | 2,723 |
| Prepayments and other assets | 4,590 | 6,793 |
| Cash and cash equivalents | 2,582 | 8,048 |
| Total assets | 19,542 | 33,282 |
| EQUITY AND LIABILITIES | | |
| <u>Equity</u> | | |
| Share capital | 3,424 | 3,424 |
| Reserves | 146,933 | 149,211 |
| Retained earnings | -155,918 | -151,380 |
| <u>Liabilities</u> | | |
| Deferred tax liabilities | 67 | 55 |
| Long-term liabilities | 12,044 | 4,728 |
| Deferred revenue | 3,873 | 7,968 |
| Short-term loans and borrowings | 7,137 | 12,870 |
| Other short term liabilities | 1,982 | 6,406 |
| Total equity and liabilities | 19,542 | 33,282 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Fourth Quarter | | Period ended 31 Dec | |
|---|----------------|---------------|---------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Figures in TUSD)</i> | | | | |
| Cash flow from operating activities | | | | |
| Profit (loss) before income tax | -4,746 | -6,844 | -4,380 | -62,099 |
| Adjustments for: | | | | |
| Depreciation, amortization and impairment | 5,012 | 7,963 | 9,912 | 49,375 |
| Share-based payments | 89 | 249 | 491 | 815 |
| Share of result from equity-accounted entities | 58 | 130 | 135 | 33 |
| Effect of exchange rate fluctuations | -884 | 677 | -569 | 555 |
| Changes in working capital | -544 | -1,885 | -4,662 | 8,521 |
| Net cash from operating activities | -1,015 | 290 | 928 | -2,800 |
| Cash flow from investing activities | | | | |
| Purchase of equipment and investment in intangible assets | -1,298 | -1,636 | -5,486 | -13,804 |
| Investment in/loan to (from) equity-accounted entities | 91 | -634 | 416 | -850 |
| Net cash from investing activities | -1,207 | -2,270 | -5,070 | -14,654 |
| Cash flow from financing activities | | | | |
| Net proceeds from issue of share capital | | | | 10,953 |
| Proceeds / repayments from (of) borrowings and leases | 1,090 | -7,011 | 943 | -5,234 |
| Net cash from financing activities | 1,090 | -7,011 | 943 | 5,719 |
| Change in cash and cash equivalents | -1,131 | -8,991 | -3,199 | -11,735 |
| Cash and cash equivalents, beginning of period | 3,498 | 17,643 | 8,048 | 19,428 |
| Effect of exchange rate fluctuations | 215 | -604 | -2,266 | 355 |
| Cash and cash equivalents, end of period | 2,582 | 8,048 | 2,582 | 8,048 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | 31 December | |
|---|-------------|---------|
| | 2013 | 2012 |
| <i>(Figures in TUSD)</i> | | |
| Opening balance | 1,255 | 42,918 |
| Total comprehensive income for the period | -7,308 | -62,211 |
| Equity issues | | 20,813 |
| Conversion rights reserve | | -1,080 |
| Share-based payments | 491 | 815 |
| Closing balance | -5,561 | 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 twelve months ended 31 December 2013 were approved for issue by the Supervisory Board on 27 February 2014.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 2013 was 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 2013 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 12 months ended 31 December 2013 have been prepared on a going concern basis. Management estimates that the Company's ability to continue executing on the current strategy in the second half of 2014 remains dependent on additional funding. While management believes that the likelihood of obtaining financing is high, as of the date of this quarterly report the outcome is uncertain, which may impact the Company's ability to operate as a going concern under the current strategy.

The unaudited interim condensed consolidated financial statements of the Company for the twelve months ended 31 December 2013 have been prepared 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 completed the evaluation of 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. In 4Q13, after performing the annual impairment test Funcom recognized 4,000 TUSD of impairment loss on its largest MMO *The Secret World* (TSW) and 200 TUSD of impairment loss on the version of the *Dreamworld Technology* (DW) used to develop and operate TSW. At the end of 2012 Funcom switched to a hybrid, pay to play model of TSW which increased activity and retention to the game. However, the increased competition through 3Q13 continued in 4Q13 and led to lower sales from membership and micro transactions. Therefore the Company revised its future projections which caused the value in use of the game and the underlying technology at year end to be lower than their net book value.

Funcom also recognized 100 TUSD impairment loss on its investment in a jointly controlled entity (see note 8) since the commercial activities of that company decreased significantly in 2013.

6 Net financial items

Net financial items mainly consist of interest earned, exchange rate differences, interest accrued on loans and a gain on debt extinguishment as a result of the loan restructuring in 2Q13.

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 4,902 TUSD convertible bonds, 3,984 TUSD interest bearing loan, 3,000 TUSD working capital loan, 106 TUSD rental deposits for sublet of office space and 52 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 December 31, 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. SICAV-SIF with a face value of 10,000 TUSD at the end of 2012 was due in full 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 became repayable in three

installments until July 2015. The first installment of 2,000 TUSD was repaid to the lender in Dec. 2013. The second installment of 4,000 TUSD is due in December 2014 and therefore is presented as a short-term liability. The third installment of 4,000 TUSD is due in July 2015 and the Company continues to present it as a long-term debt. As of 31 Dec. 2013 the carrying amount of the interest bearing loan is 7,984 TUSD.

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. Note 15, *Subsequent events* presents additional information regarding the interest bearing loan and the related warrants.

In November 2013 the Company negotiated a working capital loan with its largest shareholder KGJ Investments S.A., SICAV-SIF in the amount of 5,500 TUSD. The first installment of 3,000 TUSD was received in Dec. 2013. The other two installments of 1,250 TUSD each will become available in 1Q14 and 2Q14 respectively. The loan bears annual interest of 8% and matures in full in January 2015.

The carrying value of the interest-bearing debt at the end of 4Q13 amounts to approximately 17,387 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

| | Fourth quarter | | Full year | |
|---------------------------------|----------------|--------|-----------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Average number of shares (1000) | 66,497 | 66,497 | 66,497 | 63 044 |

12 Other comprehensive income

In accordance with IAS 21, the Company reported in Other comprehensive income a foreign exchange loss of -2,770 TUSD in 2013 (and -651 TUSD for 4Q13 alone) 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 as well as the impairment charges of 4,300 TUSD recorded in 2013 decreased the equity to -5,561 TUSD in comparison to 1,255 TUSD at the end of 2012. In January 2014, the exercise of 5,000,000 warrants (see note 15 *Subsequent events*) increased equity by 1,850 TUSD. It is also 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 a further 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 of equity.

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 | | Segment profit (loss) *) | |
|--|---------------------------------|--------|--------------------------|----------------|
| | January - December | | January - December | |
| | 2013 | 2012 | 2013 | 2012 |
| Large-scale MMO's | 18,540 | 20,108 | 9,970 | 5,365 |
| Free-to-play MMO games | 539 | 3,491 | 271 | 2,375 |
| Mobile and tablet games and other WFH | 2,330 | | 1,188 | |
| Total | 21,409 | 23,599 | 11,429 | 7,740 |
| General and administrative expenses | | | -6,398 | -17,453 |
| Depreciation, amortization and impairment charges | | | -9,912 | -49,375 |
| Share of result from equity-accounted entities | | | -135 | -33 |
| Net financial items | | | 635 | -2,979 |
| Profit (loss) before tax (from continuing operations) | | | -4,380 | -62,099 |

| | Revenue from external customers | | Segment profit (loss) *) | |
|--|---------------------------------|-------|--------------------------|---------------|
| | October - December | | October - December | |
| | 2013 | 2012 | 2013 | 2012 |
| Large-scale MMO's | 3,654 | 5,084 | 1,547 | 1,896 |
| Free-to-play MMO games | 52 | 2,702 | 48 | 2,316 |
| Mobile and tablet games and other WFH | 565 | | 289 | |
| Total | 4,270 | 7,786 | 1,884 | 4,212 |
| General and administrative expenses | | | -1,652 | -2,196 |
| Depreciation, amortization and impairment charges | | | -5,012 | -7,963 |
| Share of result from equity-accounted entities | | | -59 | -130 |
| Net financial items | | | 92 | -551 |
| Profit (loss) before tax (from continuing operations) | | | -4,746 | -6,627 |

*) 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 31 Dec. 2012 | 13,525 | | n/a |
| Segment assets as at 31 Dec. 2013 | 9,123 | - | - |

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

15 Subsequent events

In January 2014 Funcom's largest shareholder exercised 5,000,000 warrants giving right to subscribe for an equivalent number of ordinary shares in Funcom N.V. at a price 0.37 USD per share (see Note 9). As a result of the transaction Funcom recorded an increase of Equity of 1,850 TUSD. The proceeds of 1,850 TUSD were used for a partial repayment of the related interest bearing loan as agreed in the revised loan agreement following the loan restructuring in April 2013 (see Note 9).

In January 2014 ØKOKRIM (The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime) charged Funcom on suspicion of infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012 with regards to information given to the market (market manipulation) and maintenance of the required list of persons who are given access to inside information. As of the date of this quarterly report there is no sufficient information to allow Funcom to determine reliably the likelihood of whether the charge could result in financial losses or to estimate the amounts of such losses. Therefore, no provisions resulting from the charge have been recorded in the financial statements.