



2013 Third Quarter Report



The Funcom Group
Funcom N.V. and subsidiaries

HIGHLIGHTS

- Revenues in 3Q13 were 5,336 TUSD compared to last year's launch quarter of *The Secret World* - 10,963 TUSD for 3Q12.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 3Q13 were positive with 1,729 TUSD compared to 2,634 TUSD for 3Q12.
- Earnings before Interest and Tax (EBIT) for 3Q13 were 826 TUSD compared to -10,749 TUSD for 3Q12.
- Cash flow from operating activities in 3Q13 is positive with 3,637 TUSD compared to 808 TUSD in 2Q13.
- Cash position at end of 3Q13 amounts to 3,498 TUSD compared to 2,126 TUSD end of 2Q13.
- The licensed LEGO® online game developed in Oslo based on the LEGO® Minifigures line is currently on schedule to reach its Open Beta launch in summer 2014.
- In 2Q13, at Gamescom in Cologne the Company revealed the licensed LEGO® Minifigures online game for the first time. The feedback has been highly positive.
- The team conducted its first organized focus group test with kids in the appropriate target group during 3Q13 with DeLevie Group Research. Again, the feedback was very positive on gameplay as well as on the fun factor.
- During 3Q13 the development team of the licensed LEGO® online game delivered the version for the first Closed Beta of the game. Invites to external testers will be sent out in the following days. This beta is focused around the core gameplay balance and mechanics for the game and is the first exposure of the game to a large number of external players.
- The work for hire LEGO® game developed in Montreal was increased in scope during 2Q and the development is according to schedule and budget.
- The Company continues to work actively on securing more games to be developed as work for hire in Montreal.
- A brand new major content upgrade to *The Secret World*, 'Issue 8 – The Venetian Agenda', was developed during 3Q13 and released recently.
- The restructuring process initiated in early January 2013 was completed during 2Q13. We expect full effect on the cost side to take effect in 4Q13.
- As per Company expectations the positive effect of the restructuring led to additional 554 TUSD of operating cost savings compared to 2Q13 and 4,722 TUSD operating cost savings compared to 3Q12.

FINANCIALS

- Revenues of 5,336 TUSD remain consistent with previous quarter but are lower in comparison to

10,963 TUSD in 3Q12, which was the launch quarter for *The Secret World*.

- EBITDA of 1,729 TUSD, positively impacted by cost savings, was higher than 2Q13 but in decline compared to 2,634 TUSD in 3Q12 due to higher revenues from *The Secret World* in its launch quarter in 2012.
- Operating profit (EBIT) was positive 826 TUSD for 3Q13 and higher than 213 TUSD for 2Q12 mainly as a result of significant cost savings.
- Result for the period was positive 108 TUSD compared to -449 TUSD for 3Q12.
- Cash position at end of 3Q13 amounts to 3,498 TUSD compared to 2,126 TUSD end of 2Q13.
- Cash flow from operating activities in 3Q13 is positive 3,637 TUSD compared to 808 TUSD in 2Q13.
- Equity is negative -176 TUSD at the end of 3Q13 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.
- In November 2013 the Company negotiated new loan financing with its majority shareholder KGJ Investments S.A., SICAV-SIF in the amount of 5,500 TUSD.

UPDATE ON THE RESTRUCTURING PROCESS

- 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. The process was completed in mid May 2013 and during 3Q13 and 4Q13 we will see the full effect of the cost savings
- The Company is working to secure more games strengthening further the strategy for all business units.

LARGE-SCALE MMOs

- In 3Q, the third quarter with the new buy-to-play business model for *The Secret World*, the Company experienced increased competitive pressure in the segment as well as from blockbuster games such as "Grand Theft Auto V" reducing in-game activity and revenue in all our games.
- During 3Q the Company initiated several campaigns and other activities to increase activity level.

- The third major content upgrade to use the new business model for *The Secret World*, 'Issue 8 – The Venetian Agenda', was released recently with similar good up-take rate amongst players as the previous issues.
- Player numbers and revenues from *Age of Conan* and *Anarchy Online* were stable in 3Q13.
- 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 significant deliveries during 3Q13 preparations for the first Beta with external testers 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.
- 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 the smaller one was delivered on schedule and budget during 3Q13, and the second and larger one was increased in scope and is ongoing.

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.
- In November 2013 the Company negotiated new loan financing with its majority shareholder KGJ Investments S.A., SICAV-SIF in the amount of 5,500 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* still being the most important.
- In 4Q13 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, 19 November 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. - THIRD QUARTER FINANCIALS OF 2013
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(Figures in TUSD)</i>	Third Quarter		Accumulated		Full Year
	2013	2012	2013	2012	2012
Revenue	5,336	10,963	17,139	15,813	23,599
Operating expenses	-3,607	-8,329	-12,340	-27,541	-33,311
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	1,729	2,634	4,799	-11,728	-9,712
Depreciation, amortization and impairment charges	-903	-2,420	-4,900	-41,412	-49,375
Total operating expenses	-4,510	-10,749	-17,240	-68,953	-82,686
Operating result ("EBIT") from continuing operations	826	213	-101	-53,140	-59,087
Share of result from equity-accounted entities	29	130	-76	97	-33
Net financial items	-745	-771	543	-2,428	-2,979
Profit (loss) before income taxes from continuing operations	109	-428	366	-55,471	-62,099
Income taxes	-2	-21	-81	-312	-116
Profit (loss) from continuing operations	108	-449	285	-55,782	-62,215
Profit from discontinued operation, net of tax		0	0	0	0
Profit (loss) for the period	108	-449	285	-55,782	-62,215
Attributable to shareholders of Funcom N.V.	108	-449	285	-55,782	-62,215
Earnings per share basic (USD)	0.00	-0.01	0.00	-0.90	-0.99
Earnings per share fully diluted (USD)	0.00	-0.01	0.00	-0.90	-0.99

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	108	-449	285	-55,782	-62,215
Foreign exchange translation difference	402	-32	-2,119	92	4
Other		6		6	
Total comprehensive income for the period	510	-474	-1,834	-55,684	-62,211

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(Figures in TUSD)</i>	30 September		31 Dec.
	2013	2012	2012
ASSETS			
<u>Non-current assets</u>			
Deferred tax assets		183	232
Intangible assets		12,991	19,293
Tangible fixed assets		583	1,839
Financial investments		819	1,066
<u>Current assets</u>			
Trade receivables		2,824	1,665
Prepayments and other assets		4,196	5,935
Cash and cash equivalents		3,498	17,643
Total assets	25,094	47,802	33,282
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital		3,424	3,424
Reserves		147,495	147,389
Retained earnings		-151,095	-151,380
<u>Liabilities</u>			
Deferred tax liabilities		55	299
Long-term liabilities		12,974	14,380
Deferred revenue		4,692	10,044
Short-term loans and borrowings		5,329	9,168
Other short term liabilities		2,220	6,377
Total equity and liabilities	25,094	47,802	33,282

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Figures in TUSD)</i>	Third Quarter		Period ended 30 Sept		Full Year
	2013	2012	2013	2012	2012
Cash flow from operating activities					
Profit (loss) before income tax	109	-1,020	366	-55,256	-62,099
Adjustments for:					
Depreciation, amortization and impairment	903	2,420	4,900	41,412	49,375
Share-based payments	183	185	403	567	815
Share of result from equity-accounted entities	-29	-131	76	-97	33
Effect of exchange rate fluctuations	1,216	-473	315	-122	555
Changes in working capital	1,254	1,769	-4,118	10,406	8,521
Net cash from operating activities	3,637	2,750	1,942	-3,090	-2,800
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,150	-3,691	-4,188	-12,168	-13,804
Investment in/loan to (from) equity-accounted entities	508	1	325	-216	-850
Net cash from investing activities	-642	-3,690	-3,863	-12,383	-14,654
Cash flow from financing activities					
Net proceeds from issue of share capital		100		10,953	10,953
Proceeds / repayments from (of) borrowings and leases	-670	271	-148	1,776	-5,234
Net cash from financing activities	-670	371	-148	12,730	5,719
Change in cash and cash equivalents	2,325	-569	-2,068	-2,744	-11,735
Cash and cash equivalents, beginning of period	2,126	16,928	8,048	19,428	19,428
Effect of exchange rate fluctuations	-952	1,284	-2,481	959	355
Cash and cash equivalents, end of period	3,498	17,643	3,498	17,643	8,048

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(Figures in TUSD)</i>	30 September		Full Year
	2013	2012	2012
Opening balance		1,255	42,918
Total comprehensive income for the period		-1,834	-55,684
Equity issues			20,813
Conversion rights reserve			-1,080
Share-based payments		403	567
Closing balance		-176	7,534

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 nine months ended 30 September 2013 were approved for issue by the Supervisory Board on 19 November 2013.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company for the first three quarters 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 3Q13 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 nine months ended 30 September 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 nine months ended 30 September 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.

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 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 4,921TUSD convertible bonds, 7,981TUSD interest bearing loan and 72 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 September 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 9,981 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 2,000 TUSD due in December 2013. Therefore 7,981 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 3Q13 amounts to approximately 16,459 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

	Third quarter		Nine months		Full year
	2013	2012	2013	2012	2012
Average number of shares (1000)	66,497	66 396	66,497	61 884	63,044

12 Other comprehensive income

In accordance with IAS 21, the Company reported in Other comprehensive income a foreign exchange loss of 2,119 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 -176 TUSD in comparison to 1,255 TUSD 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		Segment profit (loss) *	
	January - September		January - September	
	2013	2012	2013	2012
Large-scale MMO's	14,886	15,024	8,423	3,469
Free-to-play MMO games	487	788	223	59
Mobile and tablet games and other WFH	1,765		899	
Total	17,139	15,812	9,545	3,528
General and administrative expenses			-4,746	-15,257
Depreciation, amortization and impairment charges			-4,900	-41,412
Share of result from equity-accounted entities			-76	97
Net financial items			543	-2,428
Profit (loss) before tax (from continuing operations)			366	-55,471

	Revenue from external customers		Segment profit (loss) *	
	July - September		July - September	
	2013	2012	2013	2012
Large-scale MMO's	4,568	10,640	2,658	5,849
Free-to-play MMO games	-29	322	-45	-119
Mobile and tablet games and other WFH	796		494	
Total	5,336	10,962	3,107	5,730
General and administrative expenses			-1,378	-3,097
Depreciation, amortization and impairment charges			-903	-2,420
Share of result from equity-accounted entities			29	130
Net financial items			-745	-771
Profit (loss) before tax (from continuing operations)			110	-428

*) 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 Sept. 2012	17,305	1,782	n/a
Segment assets as at 30 Sept. 2013	12,812	-	-

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

15 Subsequent events

In November 2013 the Company negotiated new loan financing with its majority shareholder KGJ Investments S.A., SICAV-SIF in the amount of 5,500 TUSD.