



# 2014 Third Quarter Report

The Funcom Group  
*Funcom N.V. and subsidiaries*

## HIGHLIGHTS

- The total Equity of the Company decreased from 553 TUSD at the end of 2Q14 to -3,307 TUSD at the end of 3Q14 mainly as a result of an impairment of 5,760 TUSD recorded on intangible assets.
- Revenues in 3Q14 are 2,651 TUSD compared to 5,336 TUSD in 3Q13 following a gradual decrease in sales from the current Live Games.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 3Q14 are -468 TUSD compared to 1,729 TUSD in 3Q13.
- Earnings before Interest and Tax (EBIT) for 3Q14 were -6,599 TUSD compared to 826 TUSD in 3Q13, mainly affected by the impairment recorded on intangible assets in the amount of 5,760 TUSD.
- Cash position increased from 2,698 TUSD at the end of 2Q14 to 3,306 TUSD at the end of 3Q14.
- LEGO Minifigures Online started its commercial roll-out on October 1<sup>st</sup>, launching on Windows PC in the English, French, German and Spanish markets.
- The initial numbers coming from the first weeks of live data coming from LEGO Minifigures Online currently indicate that it will take longer than planned to achieve the internal targets for player and revenue in 2014 and 2015.
- Co-promotion activities with LEGO® have started in October, including full product integration into all Series 12 Minifigure bags as well as cross-promotion on LEGO.com.
- In the 4Q13 report and presentation as well as the Annual report Funcom provided information with regards to the Økokrim charge on the suspicion of possible infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012. There is no new development since then. Please, refer to 4Q13 report and presentation for more information.
- Ole Schreiner stepped down as CEO and resigned from the Management Board of Funcom N.V. as of 29 October 2014. Mr. Schreiner will remain with the Company in an operational role.
- Michel Cassius joined the Management Board to strengthen the overall management capability of the Company while Funcom looks for a new CEO. Mr. Cassius has temporarily stepped down from his duties as a member of the Supervisory Board.
- Pieter van Tol, Managing Director of Funcom N.V. who became acting CFO for the Company in September 2014 in replacement of Viktoria Krasteva, has now resigned from both his functions. Christian Olsthoorn who has worked with Mr van Tol and already supports Funcom in financial capacity is stepping in as interim CFO.
- In the absence of other Managing Directors, the Supervisory Board has temporarily mandated Mr. Rui Manuel Monteiro Casais, Chief Technology Officer (CTO) of Funcom, to join the Management Board of Funcom N.V.

## FINANCIALS

- Revenues in 3Q14 are 2,651 TUSD compared to 5,336 TUSD in 3Q13 following a gradual decrease in sales and the amount recognized in revenue from previously recorded deferred billings from *The Secret World* after its launch in July 2012.
- Overall revenues and billings continue to decrease in line with previous quarter and expectations for an amount of 539 TUSD compared to 2Q14 due to slightly weaker in-game sales.
- Even though the company continued its cost-saving efforts in 3Q14 and realized operating cost savings of 1,020 TUSD in comparison to 3Q13, the Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 3Q14 decreased to -468 TUSD compared to 1,729 TUSD in 3Q13. This is a result of the gradual revenue decrease of *The Secret World*.
- Earnings before Interest and Tax (EBIT) for 3Q14 were -6,599 TUSD compared to 826 TUSD in 3Q13, mainly affected by the impairment recorded on intangible assets in the amount of 5,760 TUSD.
- Result for the period was -7,018 TUSD compared to 108 TUSD in 3Q13 and -1,437 in 2Q14.
- Cash position increased from 2,698 TUSD at the end of 2Q14 to 3,306 TUSD at the end of 3Q14.
- The total Equity of the Company decreased from 553 TUSD at the end of 2Q14 to -3,307 TUSD at the end of 3Q14 mainly as a result of an impairment of 5,760 TUSD recorded on intangible assets, partly compensated by the issuance of 4 mill. convertible loans through the termination of existing interest bearing loans and a drawdown on the standby equity facility with YA Global Master.
- The second drawdown on YA Global Master equity facility was completed in 3Q14 increasing equity and cash by 1,977 TUSD.
- The Annual General Meeting of the Company's shareholders held on 27 June 2014 approved an offer from KGJI to restructure 2,450 TUSD of the existing senior interest bearing loan and 1,550 TUSD of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on 27 June 2017. The conversion price is 0.86 USD per share. The new convertible loan is due on 27 June 2017 which is an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan agreement was successfully executed on 27 August 2014, increasing equity by 1,056 TUSD.
- It is expected that the revenue potential of the current and future games as well as the ongoing cost saving measures undertaken since 4Q12 will improve the profitability of the Company and its 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 (working capital loan) with KGJI, Funcom's largest shareholder and creditor, in the amount of 5,500 TUSD. The first installment of 3,000 TUSD was received in December 2013 and the second one of 1,250 TUSD - in 1Q14. The last installment of 1,250 TUSD was received in 3Q14. 1,550 TUSD was restructured into the new convertible loan in 3Q14. The balance of the working capital loan stands at 3,950 TUSD. In agreement with KGJI, the reimbursement due date of the working capital loan is postponed from 31 January 2015 to 31 January 2016.
- The senior interest bearing loan with KGJI is terminated after being restructured into the new convertible loan in 3Q14.
- In November 2014 the Company received 2,365 TUSD tax credit and subsequently repaid its 1,439 TUSD bank loan.

## THE FUNCOM STRATEGY

- As announced previously the Company initiated a restructuring process to better align the company with the market, make the company more efficient and enable it to quickly adapt to new trends. This process continues as per the stock notice released to the market on 17 November 2014.
- This continuous review and restructuring process is based on the Company's strategy of:
  - 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. The Company strongly encourages 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 as well as future needs.

## LARGE-SCALE MMOs

- Player numbers and revenues are decreasing for the three current Live Games – *Anarchy Online*, *Age of Conan*, *The Secret World* - with increased competition both within the genre as well as from competing platforms.
- Whilst each of the Live Games continues to generate a positive net contribution to the business, the company has recorded a partial impairment of 1,086 TUSD for *The Secret World*. This is in line with the expected net contribution trend for the game over the next three years.
- Investment levels for all current Live Games are constantly being aligned with expected revenue to ensure that they deliver a net contribution to the Company.
- Two new mission packs for *The Secret World* were released in the period – *Love & Loathing* and *The Last Pagan*.
- Fully updated versions of the high-end raids in *Age of Conan* were launched in October.

## MMOs IN DEVELOPMENT AND OTHER GAMES

- *LEGO Minifigures Online* entered its 6 months launch phase on 1<sup>st</sup> October 2014, and released fully localized for German, French and Spanish. A revised website went live, fully localized and with a simple one-click access to the *LEGO Minifigures Online* game installer.
- The initial results coming from the first few weeks of live data for the *LEGO Minifigures Online* currently indicate that it will take longer than planned to achieve the initial internal targets for player and revenue number for 2014 and 2015. Even if these are early results, the company has recorded a partial impairment charge for the *LEGO Minifigures Online* Game in its balance sheet for a total of 3,974 TUSD.
- During the next months, the game will be launched on new platforms and new markets. Game features and metrics will be optimized and tweaked as it is common for any free-to-play Game. The Macintosh version of *LEGO Minifigures Online* is currently in limited testing ahead of a wider release. The game is also fully playable on the latest iOS tablets as well as on select Android tablets. Both versions are currently in closed beta.
- Full product integration with the Series 12 LEGO Minifigures product started on October 1<sup>st</sup>. This includes promotion on all packaging and displays at retail, as well as leaflets with redeemable codes in all Minifigure bags.
- A new set of 16 Minifigures (Series 13) will be released in retail stores by LEGO in January 2015, with code integration to the *LEGO Minifigures Online* game.

- The Company underlines that a game in the “free to play” segment, like *LEGO Minifigures Online*, will continue to evolve over time to adjust features, game-play mechanics and details in the business model. This process enables the Company to address issues and/or adapt to changes in trends within the segment or in customer expectations.
- 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 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.

## TECHNOLOGY

- The Company continues to develop the *DreamWorld™* technology to become cross platform compatible. The technology now supports full cross-platform play between PC, Mac, iOS and select Android configurations.
- In October the Company signed co-development and co-marketing agreements with both Intel and Amazon, ensuring that *LEGO Minifigures Online* in particular and the *DreamWorld* technology in general would be optimized for select hardware from these partners. This includes several tablets based on Intel chip architecture as well as Amazon Fire TV and Kindle HDX tablets.

## WORK FOR HIRE

- The Company continues to develop *Fashion Week Live* on a work for hire basis in the Montreal studio.
- The Montreal studio is also working on short-term work for hire projects as well as several prototypes for mobile and tablet games.

## MISCELLANEOUS

### Transactions with related parties

- At the end of 2013 KGJI, Funcom's largest shareholder and creditor, held 15 mill. warrants to subscribe for the same number of ordinary shares of Funcom N.V. The warrants were issued in relation to an interest bearing loan with a balance of 8,000 TUSD on 31 December 2013.

- In the first half of 2014 KGJI exercised all the warrants in exchange for 15 mill. newly issued shares. The total proceeds of 5,550 TUSD were used to repay to KGJI a portion of the related loan. In 3Q14, the remaining 2,450 TUSD of the interest bearing loan was restructured into a new convertible loan.
- In November 2013 the Company negotiated new loan financing (working capital loan) with KGJI in the amount of 5,500 TUSD. The first installment of 3,000 TUSD was received in December 2013 and the second one of 1,250 TUSD - in 1Q14. The last installment of 1,250 TUSD was received in 3Q14. 1,550 TUSD was restructured into a new convertible loan in 3Q14. The balance of the working capital loan stands at 3,950 TUSD. In agreement with KGJI, the reimbursement due date of the working capital loan is postponed from 31 January 2015 to 31 January 2016.
- The Annual General Meeting of the Company's shareholders held on 27 June 2014 approved an offer from KGJI to restructure 2,450 TUSD of the existing senior interest bearing loan and 1,550 TUSD of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on 27 June 2017. The conversion price is 0.86 USD per share. The new convertible loan is due on 27 June 2017 which is an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan agreement was successfully executed on 27 August 2014.

### Risk factors

For information regarding risk factors for the Company and its games, please refer to note 28 in the 2013 annual report. For evaluations of the risks related to *LEGO Minifigures Online*, *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

- The medium and long term financial performance of the Company is influenced by a number of factors; the performance of the current Live Games and the licensed *LEGO Minifigures Online* game being the most important.
- The trend of slowly declining revenue on the current Live Game portfolio is expected to continue as in previous quarters due to the ageing

of these games. The Company will continue to support the current Live Games as long as they continue to contribute positively to the Company's results.

- The company will continue to review and improve the LEGO Minifigures Online game and its key metrics during the six month launch phase that started 1<sup>st</sup> October 2014. The game will be launched on Mac, iPad and selected Android devices in the coming months.
- With the proprietary *DreamWorld* technology platform the Company has some of the best tools and expertise available to build and launch games that fits with the Company's strategy. This technology is now strengthened with iOS, Mac and Android enabled components.
- The company will pursue a detailed review of its business both in terms of overall structure and organisation with the objective of reducing its complexity and to bring its costs in line with current and future revenues. This is the continuation of a process that started two years ago. The company will continue to inform the market of any material decision or information that may result from this review.
- At the end of 3Q 14, the Company has the ability to fund its operation in the next twelve months, continue to supports its current games as well as start working on the development of a new game in 2015.

Badhoevedorp, The Netherlands, 18 November 2014  
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](http://www.funcom.com)

**FUNCOM N.V. - THIRD QUARTER FINANCIALS OF 2014**  
PRELIMINARY, NOT AUDITED, FIGURES

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	Third Quarter		Accumulated		Full Year
	2014	2013	2014	2013	2013
<i>(Figures in TUSD)</i>					
Revenue	2,651	5,336	9,677	17,139	21,409
Operating expenses	-3,119	-3,607	-10,178	-12,340	-16,377
<b>Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)</b>	<b>-468</b>	<b>1,729</b>	<b>-501</b>	<b>4,799</b>	<b>5,032</b>
Depreciation, amortization and impairment charges	-6,131	-903	-7,153	-4,900	-9,912
Total operating expenses	-9,250	-4,510	-17,331	-17,240	-26,289
<b>Operating result ("EBIT") from continuing operations</b>	<b>-6,599</b>	<b>826</b>	<b>-7,654</b>	<b>-101</b>	<b>-4,880</b>
Share of result from equity-accounted entities	111	29	101	-76	-135
Net financial items	-519	-745	-1,530	543	635
<b>Profit (loss) before income taxes from continuing operations</b>	<b>-7,008</b>	<b>109</b>	<b>-9,083</b>	<b>366</b>	<b>-4,380</b>
Income taxes	-10	-2	-31	-81	-158
<b>Profit (loss) for the period</b>	<b>-7,018</b>	<b>108</b>	<b>-9,115</b>	<b>285</b>	<b>-4,538</b>
Attributable to shareholders of Funcom N.V.	-7,018	108	-9,115	285	-4,538
Earnings per share basic (USD)	-0.08	0.00	-0.11	0.00	-0.07
Earnings per share fully diluted (USD)	-0.08	0.00	-0.11	0.00	-0.07

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Profit (loss) for the period	-7,018	108	-9,115	285	-4,538
Foreign exchange translation difference	-161	402	-193	-2,119	-2,770
<b>Total comprehensive income for the period</b>	<b>-7,178</b>	<b>510</b>	<b>-9,308</b>	<b>-1,834</b>	<b>-7,308</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	30 September		31 Dec.
	2014	2013	2013
<i>(Figures in TUSD)</i>			
<b>ASSETS</b>			
<u>Non-current assets</u>			
Deferred tax assets			183
Intangible assets	6,245	12,991	9,305
Tangible fixed assets	343	583	544
Financial investments	398	819	325
<u>Current assets</u>			
Trade receivables	1,138	2,824	2,195
Prepayments and other assets	3,639	4,196	4,590
Income tax receivable			31
Cash and cash equivalents	3,306	3,498	2,582
<b>Total assets</b>	<b>15,069</b>	<b>25,094</b>	<b>19,572</b>
<b>EQUITY AND LIABILITIES</b>			
<u>Equity</u>			
Share capital	4,597	3,424	3,424
Reserves	157,129	147,495	146,933
Retained earnings	-165,033	-151,095	-155,918
<u>Liabilities</u>			
Deferred tax liabilities	66	54,508	67
Long-term liabilities	8,376	12,974	12,044
Deferred revenue	2,061	4,692	3,873
Short-term loans and borrowings	6,295	5,329	7,137
Other short term liabilities	1,580	2,220	2,013
<b>Total equity and liabilities</b>	<b>15,069</b>	<b>25,094</b>	<b>19,572</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Third Quarter		Period ended 30 September		Full Year
	2014	2013	2014	2013	2013
<i>(Figures in TUSD)</i>					
Cash flow from operating activities					
Profit (loss) before income tax	-7,008	109	-9,083	366	-4,380
Adjustments for:					
Depreciation, amortization and impairment	6,131	903	7,153	4,900	9,912
Share-based payments	-772	183	-266	403	491
Share of result from equity-accounted entities		-29		76	135
Effect of exchange rate fluctuations	21	1,216	-66	315	-569
Changes in working capital	-428	1,254	-1,338	-4,118	-4,662
<b>Net cash from operating activities</b>	<b>-2,056</b>	<b>3,637</b>	<b>-3,601</b>	<b>1,942</b>	<b>928</b>
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,330	-1,150	-3,921	-4,188	-5,486
Investment in/loan to (from) equity-accounted entities	-97	508	718	325	416
<b>Net cash from investing activities</b>	<b>-1,427</b>	<b>-642</b>	<b>-3,204</b>	<b>-3,863</b>	<b>-5,070</b>
Cash flow from financing activities					
Net proceeds from issue of share capital	1,977		9,715		
Proceeds / repayments from (of) borrowings and leases	1,207	-670	-3,127	-148	943
<b>Net cash from financing activities</b>	<b>3,184</b>	<b>-670</b>	<b>6,588</b>	<b>-148</b>	<b>943</b>
Change in cash and cash equivalents	-298	2,325	-216	-2,068	-3,199
Cash and cash equivalents, beginning of period	2,698	2,126	2,582	8,048	8,048
Effect of exchange rate fluctuations	906	-952	939	-2,481	-2,266
<b>Cash and cash equivalents, end of period</b>	<b>3,306</b>	<b>3,498</b>	<b>3,306</b>	<b>3,498</b>	<b>2,582</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	30 September		Full Year
	2014	2013	2013
<i>(Figures in TUSD)</i>			
Opening balance	-5,561	1,255	1,255
Total comprehensive income for the period	-9,308	-1,834	-7,308
Equity issues	16,322		
Conversion rights reserve	-5,550		
Share-based payments	790	403	491
Closing balance	-3,307	-176	-5,561

## 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 2014 were approved for issue by the Supervisory Board on 18 November 2014.

### 2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 3Q14 reports a significant decrease compared to prior period mainly due to the impairment recorded on intangible assets in the amount of 5,760 TUSD. The latter impairment affects also the equity of the company, although slightly compensated by equity transactions. Despite the negative impact of the impairment on the current financial situation of the company, there were no pervasive or material changes in 3Q14 that could negatively impact the management's assumptions behind the forecasted financial performance of the Company. The funding of the operations for a period of at least one year after the date of this quarterly report is realistic and achievable. Therefore management is of the opinion that the going concern assumption is justified and consequently the unaudited interim condensed consolidated financial statements of the Company for the 9 months ended 30 September 2014 have been prepared on a going concern basis. Notwithstanding the above, the Management Board of the Company emphasizes that the above assessments indicate the existence of material uncertainty with regards to the performance of the games and amounts to be raised as new financing in 2014 and 2015. Therefore, the actual performance of the Company may deviate significantly from the projections which may cast significant doubt on the entity's ability to continue as a going concern.

The unaudited interim condensed consolidated financial statements of the Company for the nine months ended 30 September 2014 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 2013 annual report.

The Group has as of 1 January 2014 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 2015 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, and interest incurred on loans.

### **7 Taxes**

In accordance with IAS 12, it is Funcom's assessment that no deferred tax asset can be recognized in the consolidated statement of financial position for the available tax losses carried forward. The accumulated unrecognized 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 5,326 TUSD convertible bonds, 76 TUSD rental deposits for sublet of office space and 2,973 TUSD convertible loan.

As of 30 September 2014 sixty two bonds issued on 22 December 2011 are still outstanding. These bonds have a face value of 100 TUSD (total 6,200 TUSD), 5% coupon and are due on 22 December 2015. They are convertible into common shares of Funcom N.V. at a price of 0.37 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of 30 September 2014 the bonds have a carrying amount of 5,326 TUSD and an actual balance due of 6,200 TUSD.

The Annual General Meeting of the Company's shareholders held on 27 June 2014 approved an offer from KGJI to restructure 2,450 TUSD of the existing interest bearing loan and 1,550 TUSD of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on 27 June 2017. The conversion price is 0.86 USD per share. The new convertible loan is due on 27 June 2017 which is an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan was executed successfully in August 2014. As of 30 September 2014 the loan has a carrying amount of 2,973 TUSD and an actual balance due of 4,000 TUSD.

The 2,450 TUSD balance of the interest bearing loan with KGJI was restructured into the new convertible loan in August 2014. As of 30 September 2014 the interest bearing loan has nil balance.

In November 2013 the Company negotiated a working capital loan with KGJI with 8 percent annual interest rate and initial maturity in January 2015. The first installment of 3,000 TUSD was received in December 2013 and the second



one of 1,250 TUSD - in 1Q14. The last installment of 1,250 TUSD was drawn by the Company in September 2014. 1,550 TUSD was restructured into the new convertible loan in August 2014. As of 30 September 2014 the working capital loan has a balance of 3,950 TUSD. In agreement with KGJI, the reimbursement due date of the working capital loan is postponed from 31 January 2015 to 31 January 2016.

The carrying value of the interest-bearing debt at the end of 3Q14 amounts to approximately 13,688 TUSD.

In November 2014 the Company received 2,365 TUSD tax credit and repaid 1,439 TUSD bank loan.

As of 30 September 2014 the group has a contingent liability related to the ØKOKRIM charge on the suspicion of possible infringement of the provisions of the Securities Trading Act during the period of August 2011 until August 2012. 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 actual provisions resulting from the charge have been recorded in the financial statements.

## 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
	2014	2013	2014	2013	2013
Average number of shares (1000)	87,766	66,497	80,132	66,497	66,497

## 12 Other comprehensive income

In accordance with IAS 21, the Company reported in Other comprehensive income a foreign exchange loss of 193 TUSD in 2014 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 equity of the Company slightly improved from -5,561 TUSD at the end of 4Q13 to -3,307 TUSD in 3Q14. Despite the negative impact of the impairment recorded in 3Q14 on intangible assets for an amount of 5,760 TUSD, the equity increased through the issuance of 15 mill. new shares for 5,550 TUSD following the exercise of 15 mill. warrants by KGJI and the issuance 4.7 mill. new shares following the drawdown of 3,577 TUSD on the equity facility with YA Global Masters. Funcom also issued 1.6 mill. new shares through its stock option program. The new convertible loan increased the equity further by 1,056 TUSD. It is considered that the revenue potential of the current and future games as well as the continuation of the cost saving measures that started in 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. 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	
	2014	2013	2014	2013
Large-scale MMO's	9,069	14,886	3,224	8,423
Free-to-play MMO games	129	487	87	223
Mobile and tablet games and other WFH	479	1,765	-280	899
Total	9,677	17,139	3,032	9,545
General and administrative expenses			-3,533	-4,746
Depreciation, amortization and impairment charges			-7,153	-4,900
Share of result from equity-accounted entities			101	-76
Net financial items			-1,530	543
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-9,084</b>	<b>366</b>

	Revenue from external customers		Segment profit (loss) *	
	July - September		July - September	
	2014	2013	2014	2013
Large-scale MMO's	2,474	4,568	550	2,658
Free-to-play MMO games	45	-29	29	-45
Mobile and tablet games and other WFH	132	796	-94	494
Total	2,651	5,336	486	3,107
General and administrative expenses			-954	-1,378
Depreciation, amortization and impairment charges			-6,131	-903
Share of result from equity-accounted entities			111	29
Net financial items			-520	-745
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-7,009</b>	<b>110</b>

\*) 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 September 2013	12,812	-	-
Segment assets as at 30 September 2014	6,109	-	-

**15 Subsequent events**

In November 2014 the Company received 2,365 TUSD tax credit and repaid 1,439 TUSD bank loan. Furthermore, in agreement with KGJI, the reimbursement due date of the working capital loan is postponed from 31 January 2015 to 31 January 2016.