



2014 First Quarter Report

The Funcom Group
Funcom N.V. and subsidiaries

HIGHLIGHTS

- Revenues in 1Q14 are 3,836 TUSD compared to 6,338 TUSD in 1Q13 following a gradual decrease of revenues from *The Secret World* after its launch in July 2012.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 1Q14 are 451 TUSD and have remained positive since the launch of *The Secret World*.
- Earnings before Interest and Tax (EBIT) for 1Q14 were -72 TUSD and have increased compared to -4,779 TUSD in 4Q13 and -673 TUSD in 1Q13 due to lower depreciation and impairment.
- Cash position at the end of 1Q14 amounts to 2,872 TUSD compared to 2,582 TUSD at the end of 4Q13.
- The total Equity of the Company improved from -5,561 TUSD at the end of 4Q13 to -2,241 TUSD in 1Q14 as a result of issuing new shares following the exercise of 10 mill. warrants.
- The last 5 mill. warrants were exercised in 2Q14 thus increasing equity and reducing debt by additional 1,850 TUSD. For further details on the warrants, please, refer to note 25 of the Annual report as well as Transactions with related parties below.
- The Equity and cash position increased further by 1,600 TUSD in 2Q14 after the Company completed a drawdown on its equity facility with YA Global Master.
- During 1Q14 the development team of the licensed *LEGO® Minifigures Online* game went according to plan and the game is currently on schedule to reach its Open Beta phase in June 2014.
- At the Game Developers Conference (GDC) in San Francisco the company conducted a hands on showing of *LEGO Minifigures Online®* to international gaming press. It is the Company's view that the feedback was very positive.
- The three main titles of Funcom live games portfolio (*The Secret World*, *Age of Conan* and *Anarchy Online*) remain cash flow positive.
- 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

FINANCIALS

- Revenues in 1Q14 are 3,836 TUSD compared to 6,338 TUSD in 1Q13 mainly due to a gradual decrease of revenues from *The Secret World* after its launch in July 2012. The decrease of revenues from *The Secret World* was more significant in the first year after the launch of the game. The revenue

has stabilized since then and the trend continues in 2014.

- Overall revenues and billings remain stable and in line with previous quarter and expectations with a small decrease of 434 TUSD due to slightly weaker in-game sales.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 1Q14 is 451 TUSD and has remained positive since the launch of *The Secret World*, even though it is lower compared to 1,766 TUSD for 1Q13 due to the decrease in revenue. The EBITDA of 451 TUSD is also higher than 233 TUSD in 4Q13 as a result of 652 TUSD decrease in operating costs.
- Earnings before Interest and Tax (EBIT) for 1Q14 were -72 TUSD and have increased compared to -4,779 TUSD in 4Q13 and -673 TUSD in 1Q13 due to lower depreciation and impairment charges (e.g. in 4Q13 impairment charges of 4,200 TUSD were recognized both on *The Secret World* game and the underlying technology).
- Result for the period was -659 TUSD compared to -4,822 TUSD in 4Q13 and -74 in 1Q13.
- Cash position at the end of 1Q14 amounts to 2,872 TUSD compared to 2,582 TUSD at the end of 4Q13.
- The total Equity of the Company improved from -5,561 TUSD at the end of 4Q13 to -2,241 TUSD in 1Q14 as a result of issuing new shares following the exercise of 10 mill. warrants by KGJ Investments S.A., SICAV-SIF (KGJI), Funcom's largest shareholder and creditor. The proceeds of 3,700 TUSD from the exercise were used to repay the related, interest bearing debt.
- The last 5 mill. warrants were exercised by KGJI in 2Q14 thus increasing equity and reducing debt by additional 1,850 TUSD. For further details on the warrants, please, refer to note 25 of the Annual report as well as Transactions with related parties below.
- The Equity and cash position increased further by 1,600 TUSD in 2Q14 after the Company completed a drawdown on its equity facility with YA Global Master.
- It is 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 in 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 (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 can be drawn by the Company in 2Q14 at its discretion based on liquidity needs.

- As of the date of this quarterly report the interest bearing debt has decreased by 4,300 TUSD compared to 4Q13 (considering the second installment on the working capital loan but also the reimbursement of 5,550 TUSD of senior debt following the exercise of warrants).
- In 2Q14 Funcom received an offer from KGJI to restructure 2,450 TUSD of the existing senior 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 will be determined using the daily volume weighted average price of Funcom shares 10 trading days prior to the date of the Annual General Meeting in June 2014. The new convertible loan has an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan will provide cash relief to the Company and the freed funds can be used in operations and for the launch of LEGO Minifigures Online. The offer is made conditional on the approval of the new convertible loan by Funcom's 2014 Annual General Meeting.

THE FUNCOM 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

- During 1Q the Company initiated several marketing campaigns and other activities to increase the activity level within the live games – *Anarchy Online*, *Age of Conan* and *The Secret World*.
- A major new content update for *The Secret World*, «The Black Signal», is in final production, featuring new content and new game systems. This new update will launch in early June.
- Player numbers and revenues from *Age of Conan* and *Anarchy Online* were relatively stable in 1Q14.
- 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 in June 2014. Several other significant milestones were achieved during 1Q14, the reveal at GDC in San Francisco being the most important one. It is the Company's view that the feedback from the press was very positive.
- The development team has in 1Q14 and 2Q14 worked to finalize the version for Open Beta and is now "polishing" the features, game play elements, customer funnel and business model that are scheduled for the Open Beta launch.
- After the Open Beta launch the game-development team will work in parallel addressing feedback from open beta players as well as delivering and polishing all other elements scheduled for the commercial launch in fall 2014.
- The Company underlines that a game in the "free to play" segment, like *LEGO® Minifigures Online*, will keep on changing and evolving over time to adjust features, game-play mechanics and details in the business model that 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.

WORK FOR HIRE

- The Company continues to develop *Fashion Week Live* on a work for hire basis in the Montreal studio. The tablet version of the game was completed in 2Q14 and is now available in the Apple store.
- The one LEGO® game developed in the Montreal studio reached all milestones and was successfully completed in 1Q14.

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 1Q14 and 2Q14 KGJI exercised all the warrants and the total proceeds of 5,550 TUSD 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 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 can be drawn by the Company in 2Q14 at its discretion based on liquidity needs.
- In 2Q14 Funcom received an offer from KGJI to restructure 2,450 TUSD of the existing senior loan and 1,550 TUSD of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on June 27, 2017. The conversion price will be determined using the daily volume weighted average price of Funcom shares 10 trading days prior to the date of the Annual General Meeting in June 2014. The new convertible loan has an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan will provide cash relief to the Company and the freed funds can be used in operations and for the launch of LEGO Minifigures Online. The offer is made conditional on the

approval of the new convertible loan by Funcom's 2014 Annual General Meeting.

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

- 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 2Q14 the Company expects operating costs to increase and revenues to be lower than 1Q14.
- 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 May 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

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	First Quarter		Accumulated		Full Year
	2014	2013	2014	2013	2013
<i>(Figures in TUSD)</i>					
Revenue	3,836	6,338	3,836	6,338	21,409
Operating expenses	-3,385	-4,573	-3,385	-4,573	-16,377
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	451	1,766	451	1,766	5,032
Depreciation, amortization and impairment charges	-523	-2,439	-523	-2,439	-9,912
Total operating expenses	-3,908	-7,011	-3,908	-7,011	-26,289
Operating result ("EBIT") from continuing operations	-72	-673	-72	-673	-4,880
Share of result from equity-accounted entities	6	22	6	22	-135
Net financial items	-584	586	-584	586	635
Profit (loss) before income taxes from continuing operations	-649	-65	-649	-65	-4,380
Income taxes	-10	-9	-10	-9	-158
Profit (loss) for the period	-659	-74	-659	-74	-4,538
Attributable to shareholders of Funcom N.V.	-659	-74	-659	-74	-4,538
Earnings per share basic (USD)	-0.01	0.00	-0.01	0.00	-0.07
Earnings per share fully diluted (USD)	-0.01	0.00	-0.01	0.00	-0.07

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-659	-74	-659	-74	-4,538
Foreign exchange translation difference	35	-1,321	35	-1,321	-2,770
Total comprehensive income for the period	-624	-1,395	-624	-1,395	-7,308

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 March		31 Dec.	
	2014	2013	2013	2013
<i>(Figures in TUSD)</i>				
ASSETS				
<u>Non-current assets</u>				
Deferred tax assets			232	
Intangible assets			10,186	9,305
Tangible fixed assets			479	544
Financial investments			323	325
<u>Current assets</u>				
Trade receivables			1,359	2,195
Prepayments and other assets			4,432	4,590
Cash and cash equivalents			2,872	2,582
Total assets			19,651	19,542
EQUITY AND LIABILITIES				
<u>Equity</u>				
Share capital			3,990	3,424
Reserves			150,346	146,933
Retained earnings			-156,577	-155,918
<u>Liabilities</u>				
Deferred tax liabilities			66	67
Long-term liabilities			5,461	12,044
Deferred revenue			3,114	3,873
Short-term loans and borrowings			11,369	7,137
Other short term liabilities			1,882	1,982
Total equity and liabilities			19,651	19,542

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	First Quarter		Period ended 31 March		Full Year
	2014	2013	2014	2013	2013
<i>(Figures in TUSD)</i>					
Cash flow from operating activities					
Profit (loss) before income tax	-649	-65	-649	-65	-4,380
Adjustments for:					
Depreciation, amortization and impairment	523	2,439	523	2,439	9,912
Share-based payments	106	143	106	143	491
Share of result from equity-accounted entities	-6	-22	-6	-22	135
Effect of exchange rate fluctuations	125	-1,273	125	-1,273	-569
Changes in working capital	189	-3,724	189	-3,724	-4,662
Net cash from operating activities	286	-2,503	286	-2,503	928
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,345	-1,741	-1,345	-1,741	-5,486
Investment in/loan to (from) equity-accounted entities	41	-89	41	-89	416
Net cash from investing activities	-1,304	-1,830	-1,304	-1,830	-5,070
Cash flow from financing activities					
Net proceeds from issue of share capital	3,839		3,839		
Proceeds / repayments from (of) borrowings and leases	-2,467	-19	-2,467	-19	943
Net cash from financing activities	1,372	-19	1,372	-19	943
Change in cash and cash equivalents	354	-4,351	354	-4,351	-3,199
Cash and cash equivalents, beginning of period	2,582	8,048	2,582	8,048	8,048
Effect of exchange rate fluctuations	-65	-3	-65	-3	-2,266
Cash and cash equivalents, end of period	2,872	3,693	2,872	3,693	2,582

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	31 March		Full Year
	2014	2013	2013
<i>(Figures in TUSD)</i>			
Opening balance			1,255
Total comprehensive income for the period	-624	-1,395	-7,308
Equity issues	5,072		
Conversion rights reserve	-1,233		
Share-based payments	106	143	491
Closing balance	-2,241	3	-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 three months ended 31 March 2014 were approved for issue by the Supervisory Board on 27 May 2014.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 1Q14 was in line with the trends presented in the 2013 annual report where revenues from existing games and operating costs remain stable and in line with the last quarter of 2013 while equity improves mainly as a result of equity transactions. Therefore it was concluded that there were no pervasive or material changes in 1Q14 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 3 months ended 31 March 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 live games and amounts to be raised as new financing in 2014. 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 three months ended 31 March 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 5,038 TUSD convertible bonds, 286 TUSD interest bearing loan, 103 TUSD rental deposits for sublet of office space and 34 TUSD non-interest bearing reimbursable government contribution.

As of March 31, 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 March 31, 2014 the bonds have a carrying amount of 5,038 TUSD and an actual balance due of 6,200 TUSD.

At the end of 2013 KGJ Investments S.A., SICAV-SIF (KGJI), Funcom's largest shareholder and creditor, held 15 mill. warrants to subscribe for the same number of ordinary shares of Funcom N.V. at a price of 0.37 USD per share. The warrants were issued in relation to an interest bearing loan with an actual balance due of 8,000 TUSD on 31 December 2013. In 1Q14 KGJI exercised 10 mill. warrants. The total proceeds from the exercise (3,700 TUSD) were used to repay a portion of the related, interest bearing loan. At the end of 1Q14 the interest bearing loan has a carrying amount of 4,286 TUSD of which 4,000 TUSD with maturity in December 2014 are included in the Short-term loans and borrowings while the remaining 286 TUSD with maturity in July 2015 are included in Long-term liabilities (actual balance due of the loan on March 31, 2014 is 4,300 TUSD). Note 15, *Subsequent events* presents additional information regarding the interest bearing loan and the remaining 5 mill. warrants.

In November 2013 the Company negotiated a working capital loan with KGJI. 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 can be drawn by the Company in 2Q14 at its discretion based on liquidity needs.

The carrying value of the interest-bearing debt at the end of 1Q14 amounts to approximately 15,026 TUSD.

As of March 31, 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

	First quarter		Three months		Full year
	2014	2013	2014	2013	2013
Average number of shares (1000)	70,767	66,497	70,767	66,497	66,497

12 Other comprehensive income

In accordance with IAS 21, the Company reported in Other comprehensive income a foreign exchange gain of 35 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 improved from - 5,561 TUSD at the end of 4Q13 to -2,241 TUSD in 1Q14 as a result of issuing 10 mill. new shares following the exercise of 10 mill. warrants by KGJI. In 2Q14 the Equity increased further following the exercise of the last 5 mill. warrants (1,850 TUSD) and a drawdown of USD 1,600 TUSD on the equity facility with YA Global Masters (*see note 15 Subsequent events*). It is 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. The reportable operating segments of the group are defined as:

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

Segment information

	Revenue from external customers		Segment profit (loss) *)	
	January - March		January - March	
	2014	2013	2014	2013
Large-scale MMO's	3,586	5,610	1,698	3,085
Free-to-play MMO games	36	369	20	168
Mobile and tablet games and other WFH	214	360	-108	136
Total	3,836	6,338	1,610	3,389
General and administrative expenses			-1,159	-1,623
Depreciation, amortization and impairment charges			-523	-2,439
Share of result from equity-accounted entities			6	22
Net financial items			-584	586
Profit (loss) before tax (from continuing operations)			-649	-65

*) 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 Mar. 2013	12,736	-	-
Segment assets as at 31 Mar. 2014	10,026	-	-

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

15 Subsequent events

In 2Q14 KGJI exercised the last 5 mill. warrants in exchange for the same amount of the ordinary shares of Funcom NV. As a result, the equity of the Company increased by 1,850 TUSD and the proceeds of the same amount were used to repay a portion of the related interest bearing loan. The actual balance due of the loan after the repayment is 2,450 TUSD.

In 2Q14 The Company completed a drawdown on its equity facility with YA Global Master thus increasing its equity and cash position by 1,600 TUSD.

In 2Q14 Funcom received an offer from KGJI to restructure 2,450 TUSD of the existing senior loan and 1,550 TUSD of the existing working capital loan into a new convertible loan with 5% annual interest rate and maturity on June 27, 2017. The conversion price will be determined using the daily volume weighted average price of Funcom shares 10 trading days prior to date of the Annual General Meeting in June 2014. The new convertible loan has an extended maturity in comparison to the two existing loans and 3 per cent lower annual interest rate. The new loan will provide cash relief to the Company and the freed funds can be used in operations and for the launch of LEGO Minifigures Online. The offer is made conditional on the approval of the new convertible loan by Funcom's 2014 Annual General Meeting.