



2014 Second Quarter Report

The Funcion Group
Funcion N.V. and subsidiaries

HIGHLIGHTS

- The total Equity of the Company improved from -2,241 TUSD at the end of 1Q14 to positive 553 TUSD at the end of 2Q14 mainly as a result of issuing new shares following the exercise of 5 mill. warrants and a drawdown on the standby equity facility with YA Global Master.
- Revenues in 2Q14 are 3,190 TUSD compared to 5,465 TUSD in 2Q13 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.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2Q14 are -484 TUSD compared to 1,304 TUSD in 2Q13. The decrease is due to the fact that the reduction of revenues exceeds the continued reduction in operating costs (487 TUSD less operating costs in 2Q14 compared to 2Q13).
- Earnings before Interest and Tax (EBIT) for 2Q14 were -983 TUSD compared to -253 TUSD in 2Q13.
- Cash position at the end of 2Q14 amounts to 2,698 TUSD compared to 2,872 TUSD at the end of 1Q14.
- In total 15 mill. warrants were exercised in the first half of 2014 thus increasing equity and reducing debt by 5,550 TUSD. For further details on the warrants, please, refer to note 25 of the Annual report as well as Transactions with related parties below. As of the end of 2Q14 the Company has no other outstanding warrants.
- The Equity and cash position increased further by 1,977 TUSD in 3Q14 after the Company completed a second drawdown on its equity facility with YA Global Master.
- During 2Q14 the development of the licensed *LEGO® Minifigures Online* game went according to plan with the Open Beta phase start in June as the main milestone. The game is on schedule to release commercially this fall, in conjunction with the release of the Series 12 LEGO Minifigures.
- The initial feedback from the Open Beta players is in line with the development team's findings in the latter part of the Closed Beta phase, the core game mechanics and fun factor seems to resonate well amongst the gamers.
- Major co-promotion activities together with LEGO® to commence in October, including full product integration into all Series 12 Minifigure bags as well as cross-promotion on LEGO.com'
- 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

- Pieter van Tol, Managing Director of Funcom N.V. for 19 years, will be acting as the CFO in Funcom effective from 1 September 2014 replacing Viktoria Krasteva.

FINANCIALS

- Revenues in 2Q14 are 3,190 TUSD compared to 5,465 TUSD in 2Q13 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. The decrease in sales of *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 646 TUSD compared to 1Q14 due to slightly weaker in-game sales.
- Even though the company continued its cost-saving efforts in 2Q14 and realized operating cost savings of 487 TUSD in comparison to 2Q13, the Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2Q14 decreased to -484 TUSD compared to 1,304 TUSD in 2Q13. This is a result of the gradual revenue decrease after the launch of *The Secret World*.
- Earnings before Interest and Tax (EBIT) for 2Q14 were -983 TUSD compared to -253 TUSD in 2Q13.
- Result for the period was -1,437 TUSD compared to 251 TUSD in 2Q13 and -659 in 1Q14.
- Cash position at the end of 2Q14 amounts to 2,698 TUSD compared to 2,872 TUSD at the end of 1Q14.
- The total Equity of the Company improved from -2,241 TUSD at the end of 1Q14 to positive 553 TUSD at the end of 2Q14 mainly as a result of issuing new shares following the exercise of 5 mill. warrants and a drawdown on the standby equity facility with YA Global Master. In total 15 mill. warrants were exercised in the first half of 2014 thus increasing equity and reducing debt by 5,550 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 first drawdown on YA Global Master equity facility which was completed in 2Q14 increasing equity and cash by 1,600 TUSD.
- Another drawdown was completed in July 2014 bringing additional 1,977 TUSD and increasing equity by the same amount.
- 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, 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 can be drawn by the Company by 31 October 2014 at its discretion based on liquidity needs.
 - As of the date of this quarterly report the interest bearing debt has decreased by 4,020 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).
 - 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 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 new loan agreement will be executed by the end of 3Q14.

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 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 2Q 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*.
- The major new content update for *The Secret World*, «The Black Signal», was released early June increasing activity over the summer.
- Player numbers and revenues from *Age of Conan* and *Anarchy Online* were relatively stable in 2Q14.
- 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 reached Open Beta release at the end of June 2014. Several other significant milestones were achieved during 2Q14.
- The initial feedback from the Open Beta players is in line with feedback from the latter part of the Closed Beta phase, the core game mechanics and fun factor seems to resonate well amongst the gamers in the core target audience.
- Based on the initial feedback several updates to game elements and business model tweaking, as well as continuous polish to the game have been initiated during summer.
- A major content and feature update is due in August addressing some of the feedback collected so far.
- Another large update is scheduled in 3Q prior to commercial launch, including more content, new gameplay and continuous tweaks to current gameplay and business model.
- Please refer to the 2Q14 presentation for more details

- It is the Company's view that the team's processing of feedback and the ability to turn it into actionable tasks is positive.
- The game is now fully playable on the latest iOS tablets, where initial Closed Beta has started..
- 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.

TECHNOLOGY

- The Company continues to develop the technology to become cross platform compatible. The technology is now iOS compatible as well as enabled for the Android platform.
- In 2Q the work has started on making the technology MacOS compatible.
- It is the company's goal to release *LEGO® Minifigures Online* on the PC platform and iOS (selected iPad version) this fall.
- The company is in advanced discussions with a selection of Android platform developers to seek opportunities to release *LEGO® Minifigures Online* on Android platforms (tablets) early next year.

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 Montreal studio is also working on a couple of 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 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 by 31 October 2014 at its discretion based on liquidity needs.
- 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 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 new loan agreement will be executed by the end of 3Q14.

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. This technology is now strengthened with iOS and Android enabled components.
- 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.
- Operating cost will continue to be in line with or increase compared to last quarters.
- The trend of slowly declining revenue on the current game portfolio is expected to continue as in previous quarters.

Badhoevedorp, The Netherlands, 26 August 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. - SECOND QUARTER FINANCIALS OF 2014
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Second Quarter		Accumulated		Full Year
	2014	2013	2014	2013	2013
(Figures in TUSD)					
Revenue	3,190	5,465	7,026	11,803	21,409
Operating expenses	-3,674	-4,161	-7,059	-8,733	-16,377
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-484	1,304	-33	3,070	5,032
Depreciation, amortization and impairment charges	-500	-1,558	-1,022	-3,996	-9,912
Total operating expenses	-4,173	-5,718	-8,081	-12,729	-26,289
Operating result ("EBIT") from continuing operations	-983	-253	-1,055	-926	-4,880
Share of result from equity-accounted entities	-16	-127	-10	-105	-135
Net financial items	-426	702	-1,010	1,288	635
Profit (loss) before income taxes from continuing operations	-1,426	322	-2,076	257	-4,380
Income taxes	-11	-71	-21	-80	-158
Profit (loss) for the period	-1,437	251	-2,097	177	-4,538
Attributable to shareholders of Funcom N.V.	-1,437	251	-2,097	177	-4,538
Earnings per share basic (USD)	-0.02	0.00	-0.03	0.00	-0.07
Earnings per share fully diluted (USD)	-0.02	0.00	-0.03	0.00	-0.07

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-1,437	251	-2,097	177	-4,538
Foreign exchange translation difference	-68	-1,200	-33	-2,521	-2,770
Total comprehensive income for the period	-1,505	-950	-2,129	-2,344	-7,308

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June		31 Dec.		
	2014	2013	2013	2013	
(Figures in TUSD)					
ASSETS					
Non-current assets					
Deferred tax assets				181	
Intangible assets		10,987	12,701	9,305	
Tangible fixed assets		427	633	544	
Financial investments		309	784	325	
Current assets					
Trade receivables		1,132	2,533	2,195	
Prepayments and other assets		3,953	6,756	4,590	
Income tax receivable				31	
Cash and cash equivalents		2,698	2,126	2,582	
Total assets	19,505	25,713	19,572		
EQUITY AND LIABILITIES					
Equity					
Share capital		4,458	3,424	3,424	
Reserves		154,110	146,910	146,933	
Retained earnings		-158,015	-151,203	-155,918	
Liabilities					
Deferred tax liabilities		68	55	67	
Long-term liabilities		7,286	12,730	12,044	
Deferred revenue		2,538	5,494	3,873	
Short-term loans and borrowings		7,140	5,554	7,137	
Other short term liabilities		1,920	2,749	2,013	
Total equity and liabilities	19,505	25,713	19,572		

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Second Quarter		Period ended 30 June		Full Year
	2014	2013	2014	2013	2013
(Figures in TUSD)					
Cash flow from operating activities					
Profit (loss) before income tax	-1,426	322	-2,076	257	-4,380
Adjustments for:					
Depreciation, amortization and impairment	500	1,558	1,022	3,996	9,912
Share-based payments	400	77	506	220	491
Share of result from equity-accounted entities	6	127		105	135
Effect of exchange rate fluctuations	-212	373	-87	-900	-569
Changes in working capital	-1,099	-1,648	-910	-5,372	-4,662
Net cash from operating activities	-1,831	808	-1,545	-1,694	928
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,247	-1,298	-2,592	-3,038	-5,486
Investment in/loan to (from) equity-accounted entities	774	-93	815	-182	416
Net cash from investing activities	-473	-1,391	-1,777	-3,221	-5,070
Cash flow from financing activities					
Net proceeds from issue of share capital	3,899		7,738		
Proceeds / repayments from (of) borrowings and leases	-1,867	541	-4,334	522	943
Net cash from financing activities	2,032	541	3,404	522	943
Change in cash and cash equivalents					
Cash and cash equivalents, beginning of period	2,872	3,693	2,582	8,048	8,048
Effect of exchange rate fluctuations	98	-1,526	33	-1,529	-2,266
Cash and cash equivalents, end of period	2,698	2,126	2,698	2,126	2,582

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	30 June		Full Year		
	2014	2013	2014	2013	
(Figures in TUSD)					
Opening balance	-5,561	1,255		1,255	
Total comprehensive income for the period	-2,129	-2,344		-7,308	
Equity issues	9,588				
Conversion rights reserve	-1,850				
Share-based payments	506	220		491	
Closing balance	553	-869		-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 six months ended 30 June 2014 were approved for issue by the Supervisory Board on 26 August 2014.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 2Q14 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 first quarter of 2014 while equity improves mainly as a result of equity transactions. Therefore it was concluded that there were no pervasive or material changes in 2Q14 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 6 months ended 30 June 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 six months ended 30 June 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 5,174 TUSD convertible bonds, 1,988 TUSD interest bearing loan, 107 TUSD rental deposits for sublet of office space and 17 TUSD non-interest bearing reimbursable government contribution.

As of June 30, 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 June 30, 2014 the bonds have a carrying amount of 5,174 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 8 percent interest bearing loan with an actual balance due of 8,000 TUSD at the end of 2013. All of the warrants were exercised in the first half of 2014 (10 mill. warrants were exercised in 1Q14 with the remaining 5 mill. in 2Q14). The total proceeds from the exercise (5,550 TUSD) were used to repay a portion of the related interest bearing loan. At the end of 2Q14 the interest bearing loan has a carrying amount of 2,438 TUSD of which 450 TUSD with maturity in December 2014 are included in the Short-term loans and borrowings while the remaining 1,988 TUSD with maturity in July 2015 are included in Long-term liabilities (actual balance due of the loan on June 30, 2014 is 2,450 TUSD).

In November 2013 the Company negotiated a working capital loan with KGJI with 8 percent annual interest rate and 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 can be drawn by the Company by October 31, 2014 at its discretion based on liquidity needs.

The Annual General Meeting of the Company's shareholders held on June 27, 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 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 new loan agreement will be executed by the end of 3Q14.

The carrying value of the interest-bearing debt at the end of 2Q14 amounts to approximately 13,367 TUSD.

As of June 30, 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

	Second quarter		Half year		Full year
	2014	2013	2014	2013	2013
Average number of shares (1000)	81,675	66,497	76,251	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 33 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 553 TUSD in 2Q14 as a result of issuing 15 mill. new shares for 5,550 TUSD following the exercise of 15 mill. warrants by KGJI and issuing 2.2 mill. new shares following the drawdown of 1,600 TUSD on the equity facility with YA Global Masters. Funcom also issued 1.6 mill. new shares through its stock option program. 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 January - June		Segment profit (loss) * January - June	
	2014	2013	2014	2013
Large-scale MMO's	6,595	10,318	2,674	5,765
Free-to-play MMO games	84	516	58	268
Mobile and tablet games and other WFH	347	969	-186	405
Total	7,026	11,803	2,546	6,438
General and administrative expenses			-2,579	-3,368
Depreciation, amortization and impairment charges			-1,022	-3,996
Share of result from equity-accounted entities			-10	-105
Net financial items			-1,010	1,288
Profit (loss) before tax (from continuing operations)			-2,076	257
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	Revenue from external customers April - June		Segment profit (loss) * April - June	
	2014	2013	2014	2013
Large-scale MMO's	3,009	4,708	976	2,679
Free-to-play MMO games	48	147	38	100
Mobile and tablet games and other WFH	133	610	-78	270
Total	3,190	5,465	936	3,049
General and administrative expenses			-1,420	-1,745
Depreciation, amortization and impairment charges			-500	-1,558
Share of result from equity-accounted entities			-16	-127
Net financial items			-426	702
Profit (loss) before tax (from continuing operations)			-1,426	322

*) Segment profit (loss) is measured as revenue earned less personnel costs and other operating costs. General and administrative costs, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments.

	Large-scale MMO's	Free-to-play MMO's	Mobile, tablet and WFH
Segment assets as at 30 June 2013	12,510	-	-
Segment assets as at 30 June 2014	10,828	-	-

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

15 Subsequent events

In 3Q14 The Company completed a drawdown on its equity facility with YA Global Master thus increasing its equity and cash position by 1,977 TUSD.

Directors' responsibility statement

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

The Consolidated Interim Financial Statements for the six months ended 30 June 2014 give a true and fair view of the assets, liabilities, financial position and profit or loss of Funcom N.V. and its consolidated companies, and

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

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

Badhoevedorp, The Netherlands
26 August, 2014

The Management Board of Funcom N.V.

Ole Schreiner (member of the board and CEO)

Pieter van Tol (member of the board)