



2014 Fourth Quarter Report

The Funcom Group
Funcom N.V. and subsidiaries

HIGHLIGHTS

- The total Equity of the Company increased from USD -3,307 thousand at the end of 3Q14 to USD -2,776 thousand at the end of 4Q14 mainly as a result of a drawdown of USD 898 thousand on the equity facility with YA Global Masters in December 2014.
- Revenues in 4Q14 are USD 2,939 thousand compared to USD 4,270 thousand in 4Q13 following a gradual decrease in sales from the current Live Games.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 4Q14 are USD -148 thousand compared to USD 233 thousand in 4Q13.
- Earnings before Interest and Tax (EBIT) for 4Q14 were USD -439 thousand compared to USD -4,779 thousand in 4Q13. In 3Q14, impairment on intangible assets of USD 5,760 thousand was recorded, while the impairment on intangible assets of USD 4,200 thousand in 2013 was only recorded in 4Q.
- The cash position increased from USD 3,306 thousand at the end of 3Q14 to USD 3,705 thousand at the end of 4Q14.
- The Live Games – *Anarchy Online*, *Age of Conan* and *The Secret World* – have delivered stronger than anticipated revenues in December 2014, contributing to revenue of USD 2,098 thousand in 4Q14 compared to USD 2,214 thousand in 3Q14.
- The team continued to develop and improve *LEGO Minifigures Online*, notably with the regular releases of new features and the launch of an “Unlimited Membership” offer around Thanksgiving in November 2014 and a promotion during the December Holiday period. Whilst these have triggered some positive up-take, the Company still believes that, as stated in 3Q14, it will take longer than planned to achieve the internal targets for player and revenue in 2014 and 2015.
- On 24 December 2014, the Company announced the sale of its Work-for-Hire division based in Montreal to NVizzio with the effective transfer of 14 Funcom employees to the new company. This announcement is in line with the Company’s strategy to focus on the creation and publishing of mid-core online games and its drive to align costs to revenues.
- The General Meeting of 18 December 2014 has confirmed Mr Michel Cassius in his role of Managing Director of Funcom N.V.
- The General Meeting of 30 January 2015, has confirmed Mr Rui Manuel Monteiro Casais in his role of Managing Director of Funcom N.V.
- The General Meeting of 30 January 2015 also confirmed the appointment of BDO, The Netherlands as the auditor of the Company for the year 2014.

- 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 public development since then. The Company will continue to inform the market if new developments arise. Please, refer to 4Q13 report and presentation for more information.

FINANCIALS

- Revenues in 4Q14 are USD 2,939 thousand compared to USD 4,270 thousand in 4Q13 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 increased by USD 288 thousand compared to 3Q14 due to higher sales during the holiday seasons.
- Even though the company continued its cost-saving efforts in 4Q14 and realized operating cost savings of USD 950 thousand in comparison to 4Q13, the Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 4Q14 decreased to USD -148 thousand compared to USD 233 thousand in 4Q13. This is a result of the gradual revenue decrease of *The Secret World*.
- Earnings before Interest and Tax (EBIT) for 4Q14 were USD -439 thousand compared to USD -4,779 thousand in 4Q13, mainly affected by the impairment recorded on intangible assets in the amount of USD 5,760 thousand in 3Q14.
- The result for the period was USD 333 thousand compared to USD -4,822 thousand in 4Q13 and USD -7,018 thousand in 3Q14. In 4Q13, impairment of USD 4,200 thousand was recorded, and in 3Q14, the impairment of USD 5,760 thousand was recorded.
- The cash position increased from USD 3,306 thousand at the end of 3Q14 to USD 3,705 thousand at the end of 4Q14.
- The total Equity of the Company increased from USD -3,307 thousand at the end of 3Q14 to USD -2,776 thousand at the end of 4Q14 mainly as a result of a drawdown on the equity facility with YA Global Masters.
- The third drawdown on YA Global Master equity facility was completed in 4Q14 increasing equity and cash by USD 898 thousand.
- The Company 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 USD 5,500 Thousand. The first installment of USD 3,000 thousand was received in December 2013 and the second one of USD 1,250 thousand - in 1Q14. The last installment of USD 1,250 thousand was received in 3Q14. USD 1,550 thousand was restructured into the new convertible loan in 3Q14. The balance of the working capital loan stands at USD 3,950 thousand.
- KGJI has confirmed that it is willing to continue to support the Company by deferring the maturity of the USD 3,950 thousand working capital loan from 31 January 2016 to the earlier of 30 June 2016 or the 2016 AGM.
- KGJI also confirmed that it is willing to defer the maturity of the USD 6,200 thousand convertible bond from 22 December 2015 to the earlier of 30 June 2016 or the 2016 AGM.
- In November 2014 the Company received a USD 2,365 thousand tax credit and subsequently repaid its USD 1,439 thousand 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 notices released to the market on 17 November 2014 and on 24 December 2014, when the company announced that it has proceeded with the reduction of its workforce across the board and proceeded with the sales of its Work-for-Hire department, based in Montreal and part of Funcom Games Canada. These organizational changes will contribute to cost reduction starting from 1Q15.
- 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 USD 3-6 Million
 - 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 mentioned statements and goals are forward looking 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 over the past 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

- For *The Secret World*, the team released the Issue 10 of the game, "Nightmares of the Dream Palace" and organized two major events around Halloween "The Broadcast" and around Christmas "The Magic Flute".
- *Age of Conan* was also supported by the release of new characters, Unchained Raids and Armor Sets.
- The team also released a new "Shadowland Inferno" mission for *Anarchy Online*.
- As a result of these successful content releases and other promotions in December 2014 as well as a positive seasonality effect (the holiday season is a strong period for games in general), the three current Live Games – *Anarchy Online*, *Age of Conan*, *The Secret World* have performed higher than expectations and seen their total revenues slightly decrease from USD 2,214 thousand in 3Q14 to USD 2,098 thousand in 4Q14.
- Overall, Funcom's Live Games continue to generate a positive net contribution to the business and investment levels are constantly reviewed and aligned with expected revenue to ensure that they will continue to contribute positively to the Company in the future.

MMOs IN DEVELOPMENT AND OTHER GAMES

- The team continued to make significant improvement to the *LEGO Minifigures Online* games during the last months of 4Q14.
- Through promotions with LEGO and the inclusion of Games Code in the LEGO Minifigures sold retail worldwide, the number of players accessing the game has increased steadily.
- In November around the Thanksgiving week and in December during the Holiday season, the Company tested new pricing for an "Unlimited Membership" that gives the users full access to all aspects of the game, without any restriction. Based on early signals, these offers seem to have been well received by the children and by the parents – who as per a market evaluation, prefer to pay an upfront fee instead of having to regularly pay for items or subscriptions for their children.
- The team also continued to improve the game, which had a positive impact on the retention ratio and the number of returning customers.

- Despite all the above, the Company continues to believe that, as per the announcement made on 17 November 2014, it will take longer than planned to achieve the initial internal targets for player and revenue numbers for 2014 and 2015.
- During 1Q15 and 2Q15, the game will be launched on new platforms and in new markets. The Macintosh version of *LEGO Minifigures Online* will be launched in 1Q15.
- The team is in the process of extending the closed iOS Beta release to a wider group of selected customers ahead of a staged roll-out of the final version in the coming months.
- A new set of 16 Minifigures (Series 13) has been released in retail stores by LEGO in January 2015, with code integration to the *LEGO Minifigures Online* game.
- The Company underlines that a game like *LEGO Minifigures Online* and other online games 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 encourages 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.

WORK FOR HIRE

- In December 2014, in order to focus on its strategy and as part of the restructuring process and the commitment to align costs to revenues, the Company decided to discontinue its efforts in the Work for Hire space.
- The Work for Hire business has been taken over by another Montreal based company and effective as

of 1st January 2015 the whole Work for Hire team has transferred from Funcom Games Canada to this new Company, keeping their employment.

MISCELLANEOUS

Transactions with related parties

- In November 2013 the Company negotiated new loan financing (working capital loan) with KGJI in the amount of USD 5,500 thousand. The first installment of USD 3,000 thousand was received in December 2013 and the second one of USD 1,250 thousand in 1Q14. The last installment of USD 1,250 thousand was received in 3Q14. USD 1,550 thousand was restructured into a new convertible loan in 3Q14. The balance of the working capital loan stands at USD 3,950 thousand. KGJI has confirmed that it is willing to continue to support the Company by deferring the maturity of the USD 3,950 thousand working capital loan from 31 January 2016 to the earlier of 30 June 2016 or the 2016 AGM.
- KGJI also confirmed that it is willing to defer the maturity of the USD 6,200 thousand convertible bond from 22 December 2015 to the earlier of 30 June 2016 or the 2016 AGM.

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 will inform the Market when the game is launched on Mac, iPad and selected Android devices.
- With the proprietary *DreamWorld* technology platform the Company has some of the best tools and expertise available to build and launch games that fit with the Company's strategy. This technology is now strengthened with iOS, Mac and Android enabled components.
- The Company continues to pursue a detailed review of its business both in terms of overall structure and organization. With the reduction in labor force in all locations implemented in 4Q14, the Sale and Transfer of its Work for Hire business in December, the start of the liquidation process for Funcom SARL, based in Luxembourg, Funcom GMBH and Funcom Sales GMBH, both based in Switzerland, it has already progressed in its objective of reducing its complexity and to bring its costs in line with current and future revenues. The company will continue to inform the market of any material decision or information that may result from this review.
- Based on its current revenues, cost projections and the postponement of the convertible bonds maturity from 4Q15 to 2Q16, the Company has the ability to fund its operations for the next twelve months after of the end of 4Q14.

Badhoevedorp, The Netherlands, 27 February 2015
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 and its organization, please see www.funcom.com

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Fourth Quarter		Accumulated	
	2014	2013	2014	2013
<i>(Figures in TUSD)</i>				
Revenue	2,939	4,270	12,616	21,409
Operating expenses	-3,087	-4,037	-13,265	-16,377
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-148	233	-648	5,032
Depreciation, amortization and impairment charges	-292	-5,012	-7,445	-9,912
Total operating expenses	-3,379	-9,049	-20,709	-26,289
Operating result ("EBIT") from continuing operations	-439	-4,779	-8,093	-4,880
Share of result from equity-accounted entities	-172	-58	-72	-135
Net financial items	948	92	-581	635
Profit (loss) before income taxes from continuing operations	337	-4,746	-8,746	-4,380
Income taxes	-4	-77	-35	-158
Profit (loss) for the period	333	-4,822	-8,781	-4,538
Attributable to shareholders of Funcom N.V.	333	-4,822	-8,781	-4,538
Earnings per share basic (USD)	0.00	-0.07	-0.11	-0.07
Earnings per share fully diluted (USD)	0.00	-0.07	-0.11	-0.07

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	333	-4,822	-8,781	-4,538
Foreign exchange translation difference	-1,138	-651	-1,331	-2,770
Total comprehensive income for the period	-805	-5,473	-10,113	-7,308

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December	
	2014	2013
<i>(Figures in TUSD)</i>		
ASSETS		
<u>Non-current assets</u>		
Deferred tax assets		
Intangible assets	7,380	9,305
Tangible fixed assets	253	544
Financial investments	214	325
<u>Current assets</u>		
Trade receivables	1,249	2,195
Prepayments and other assets	1,160	4,590
Income tax receivable	31	31
Cash and cash equivalents	3,705	2,582
Total assets	13,961	19,572
EQUITY AND LIABILITIES		
<u>Equity</u>		
Share capital	4,724	3,424
Reserves	161,140	146,933
Retained earnings	-168,640	-155,918
<u>Liabilities</u>		
Deferred tax liabilities	64	67,467
Long-term liabilities	7,081	12,044
Deferred revenue	1,756	3,873
Short-term loans and borrowings	5,777	7,137
Other short term liabilities	2,060	2,013
Total equity and liabilities	13,961	19,572

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Fourth Quarter		Period ended 31 December	
	2014	2013	2014	2013
<i>(Figures in TUSD)</i>				
Cash flow from operating activities				
Profit (loss) before income tax	337	-4,746	-8,746	-4,380
Adjustments for:				
Depreciation, amortization and impairment	292	5,012	7,445	9,912
Share-based payments	1,494	89	1,228	491
Share of result from equity-accounted entities	72	58	72	135
Effect of exchange rate fluctuations	-30	-884	-97	-569
Changes in working capital	2,349	-544	1,011	-4,662
Net cash from operating activities	4,513	-1,015	913	928
Cash flow from investing activities				
Purchase of equipment and investment in intangible assets	-1,239	-1,298	-5,160	-5,486
Investment in/loan to (from) equity-accounted entities	46	91	764	416
Net cash from investing activities	-1,193	-1,207	-4,397	-5,070
Cash flow from financing activities				
Net proceeds from issue of share capital	2,748		12,463	
Proceeds / repayments from (of) borrowings and leases	-1,540	1,090	-4,667	943
Net cash from financing activities	1,208	1,090	7,796	943
Change in cash and cash equivalents	4,528	-1,131	4,312	-3,199
Cash and cash equivalents, beginning of period	3,306	3,498	2,582	8,048
Effect of exchange rate fluctuations	-4,129	215	-3,190	-2,266
Cash and cash equivalents, end of period	3,705	2,582	3,705	2,582

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	31 December	
	2014	2013
<i>(Figures in TUSD)</i>		
Opening balance	-5,561	1,255
Total comprehensive income for the period	-10,113	-7,308
Equity issues	12,463	
Exercise of warrants	-1,850	
Conversion rights reserve	1,056	
Share-based payments	1,228	491
Closing balance	-2,776	-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 twelve months ended 31 December 2014 were approved for issue by the Supervisory Board on 26 February 2015.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 2014 reports slightly declining revenues from existing games and decreased operating costs due to internal reorganization. There were several equity transactions that helped to improve the equity position of the company. The successful completion of the loan restructuring as well as the revenue potential of current and future games and the opportunities of raising additional capital also remain consistent with the expectations at the end of 2013. There were no pervasive or material changes in 2014 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 12 months ended 31 December 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 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 twelve months ended 31 December 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 generally 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 client retention period. 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 points, 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 USD 3,049 thousand convertible loan, USD 82 thousand rental deposits for sublet of office space and USD 3,950 thousand working capital loan.

As of 31 December 2014 sixty two bonds issued on 22 December 2011 are still outstanding. These bonds have a face value of USD 100 thousand (total USD 6,200 thousand), 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 31 December 2014 the bonds have a carrying amount of USD 5,478 thousand and an actual balance due of USD 6,200 thousand.

The Annual General Meeting of the Company's shareholders held on 27 June 2014 approved an offer from KGJI to restructure USD 2,450 thousand of the existing interest bearing loan and USD 1,550 thousand 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 31 December 2014 the loan has a carrying amount of USD 3,049 thousand and an actual balance due of USD 4,000 thousand.

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 USD 3,000 thousand was received in December 2013 and the second one of USD 1,250 thousand in 1Q14. The last installment of USD 1,250 thousand was drawn by the Company in September 2014. USD 1,550 thousand was restructured into the new convertible loan in August 2014. As of 31 December 2014 the working capital loan has a balance of USD 3,950 thousand. 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 4Q14 amounts to approximately USD 12,477 thousand.

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

As of 31 December 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

	Fourth quarter		Full year	
	2014	2013	2014	2013
Average number of shares (in thousands)	88,272	66,497	82,184	66,497

12 Other comprehensive income

In accordance with IAS 21, the Company reported in Other comprehensive income a foreign exchange loss of USD 1,331 thousand 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 USD -5,561 thousand at the end of 4Q13 to USD -2,776 thousand in 4Q14. Despite the negative impact of the impairment on intangible assets for an amount of USD 5,760 thousand, the equity increased through the issuance of 15 million new shares for USD 5,550 thousand following the exercise of 15 million warrants by KGJI and the issuance of 7.3 million new shares following the drawdown of USD 4,479 thousand on the equity facility with YA Global Masters. Funcom also issued 1.6 million new shares through its stock option program. The new convertible loan increased the equity further by USD 1,056 thousand. 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 – which includes The Secret World and Age of Conan
- free-to-play MMO games – which includes the games under the Company's free-to-play game initiative
- mobile and tablet games and other WFH - which includes game development for mobile and tablet platforms and other work-for-hire games

Segment information

	Revenue from external customers		Segment profit (loss) *)	
	January - December		January - December	
	2014	2013	2014	2013
Large-scale MMO's	11,748	18,540	4,117	9,970
Free-to-play MMO games	333	539	283	271
Mobile and tablet games and other WFH	536	2,330	-385	1,188
Total	12,616	21,409	4,015	11,429
General and administrative expenses			-4,663	-6,398
Depreciation, amortization and impairment charges			-7,445	-9,912
Share of result from equity-accounted entities			-72	-135
Net financial items			-581	635
Profit (loss) before tax (from continuing operations)			-8,746	-4,380

	Revenue from external customers		Segment profit (loss) *)	
	October - December		October - December	
	2014	2013	2014	2013
Large-scale MMO's	2,679	3,654	893	1,547
Free-to-play MMO games	204	52	196	48
Mobile and tablet games and other WFH	57	565	-105	289
Total	2,939	4,270	984	1,884
General and administrative expenses			-1,130	-1,652
Depreciation, amortization and impairment charges			-292	-5,012
Share of result from equity-accounted entities			-173	-59
Net financial items			949	92
Profit (loss) before tax (from continuing operations)			338	-4,746

*) 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 December 2013	9,123	-	-
Segment assets as at 31 December 2014	7,257	-	-

15 Subsequent events

KGJI has confirmed that it is willing to continue to support the Company by deferring the maturity of the USD 3,950 thousand working capital loan from 31 January 2016 to the earlier of 30 June 2016 or the 2016 AGM. KGJI also confirmed that it is willing to defer the maturity of the USD 6,200 thousand convertible bond from 22 December 2015 to the earlier of 30 June 2016 or the 2016 AGM