



2016 Second Quarter Report

The Funcom® Group
Funcom N.V. and subsidiaries

SUMMARY

- The total Equity of the Company increased from USD -9,953 thousand at the end of 1Q16 to USD +2,389 thousand at the end of 2Q16. The increase was mainly due to the successful completion of a private placement and the partial conversion of the convertible loan into shares.
- Revenues in 2Q16 are USD 1,718 thousand compared to USD 2,654 thousand in 2Q15, following a gradual and expected decrease in the sales from the current Live Games.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2Q16 are USD -412 thousand compared to USD 261 thousand in 2Q15.
- Earnings before Interest and Tax (EBIT) for 2Q16 are USD -1,288 thousand compared to USD -3,408 thousand in 2Q15.
- The cash position improved from USD 1,014 thousand at the end of 1Q16 to USD 5,100 thousand at the end of 2Q16, mainly due to the successful completion of the private placement.
- The Live Games – *The Secret World*®, *Anarchy Online*® and *Age of Conan*™ – were the major contributors to the revenues.
- *The Park*® was released for the Xbox One and PlayStation 4 platforms on 3 May. The project's non-revenue related goals that include developing new internal competencies were also met successfully.
- *Conan Exiles*™ is set to release in Early Access in January 2017 and development of the project is on track
- In April 2016, the USD 3,950 thousand working capital loan and the USD 4,000 thousand convertible loan were combined into a new convertible loan of USD 7,950 thousand. In May 2016, USD 7,700 thousand of this new loan was converted into 42,777,778 Funcom shares at the price of USD 0.18 per share.
- On 31 May 2016, Funcom issued 95,970,000 shares at NOK 0.55 per share through a private placement. The net proceeds amounted to USD 6,011 thousand.
- The company continued its cost-saving efforts in 2Q16 and realized operating cost savings of USD 262 thousand in comparison to 2Q15. The Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2Q16 are USD -412 thousand compared to USD 261 thousand in 2Q15.
- Earnings before Interest and Tax (EBIT) for 2Q16 were USD -1,288 thousand compared to USD -3,408 thousand in 2Q15 when the Company recorded an impairment charge of USD 2,927 thousand on its games.
- The loss for the period was USD -1,921 thousand compared to USD -4,169 thousand in 2Q15, and USD -761 thousand in 1Q16.
- The cash position improved from USD 1,014 thousand at the end of 1Q16 to USD 5,100 thousand at the end of 2Q16, mainly due to the successful completion of the private placement.
- On 13 April 2016, KGJ Investments and the Company signed an agreement to combine the USD 3,950 thousand working capital loan and the USD 4,000 thousand convertible loan into a new convertible loan of USD 7,950 thousand with maturity date of 30 June 2019, interest rate of 6%, and conversion price of USD 0.18 per share. On 31 May 2016, USD 7,700 thousand of this new loan was converted into 42,777,778 Funcom shares at the price of USD 0.18 per share.
- On 19 April 2016, KGJ Investments granted to the Company a bridge loan amounting to USD 500 thousand bearing interest at a rate of 5% per annum. On 7 June 2016, the Company reimbursed the loan and the related accrued interest with the proceeds received from the private placement.
- On 31 May 2016, Funcom issued 95,970,000 shares at NOK 0.55 per share through a private placement. The net proceeds amounted to USD 6,011 thousand.
- On 24 June 2016, the Company issued 1,565,000 new shares after the exercise of the same number of warrants out of the 3,130,000 warrants that were initially granted to Conan Properties International LLC. The exercise of warrants was made at a price of USD 0.10 per share; therefore, the Company received cash proceeds amounting to USD 156,500.

FINANCIALS

- The total Equity of the Company increased from USD -9,953 thousand at the end of 1Q16 to USD +2,389 thousand at the end of 2Q16. The increase was mainly due to the successful completion of a private placement with net proceeds of USD 6,011 thousand, and the partial conversion of the convertible loan into shares for a total amount of USD 7,700 thousand.
- Revenues in 2Q16 are USD 1,718 thousand compared to USD 2,654 thousand in 2Q15, following a gradual and expected decrease in sales from the current Live Games.

THE FUNCOM STRATEGY

- As previously communicated in the 2Q 2015 report, the Company decided to shift strategy, focusing on different types of products and production cycles. This new strategy consists of:
 - Developing small and innovative games, focused on trying new concepts, experimenting with new technology and platforms and utilizing our IPs, while keeping the investment level low;

- Developing larger games, focused on genres or game types where we can create products of higher production value than the competition, using our own or 3rd party IPs and drawing from the innovation and experimentation of the smaller products to lower the overall risk;
- Upgrading the *Dreamworld Technology* to integrate with third party technologies;
- Leveraging and growing the internal Intellectual Properties such as *Anarchy Online*, *The Longest Journey* and *The Secret World* for both internal and 3rd party licensing.
- As part of this strategy, market segments and platforms will be constantly evaluated as the trends in the gaming industry change very quickly and new opportunities are emerging such as “eSports”, “VR”, “AR”, among others.
- The product development and release plan for this strategy is a minimum of one small game released per year and one larger game to be in development at all times per development studio.
- Additionally, the company will keep developing and supporting the existing MMORPGs as they are an important source of revenue and drive the internal IPs.
- The strategy is meant to reduce the overall risk exposure of the company, control costs through careful budgeting and increase the financial stability by having more revenue sources.
- Both development studios are scheduled to have fully switched to this strategy by 1Q17.
- The first “smaller” game to be released under this new strategy was *The Park*, released on 27 October 2015. The first “larger” game is *Conan Exiles*, expected to be released in “Early Access” during January 2017.
- The above mentioned statements and objectives 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 industry. The industry has drastically changed over the past few 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.
- Initiated a free trial campaign to test different mechanisms of acquiring new players
- Overall investment in *The Secret World* in 2Q16 was temporarily reduced due to activities for *Age of Conan* and the new “smaller” game
- For *Age of Conan*:
 - Celebrated the 8th Anniversary
 - Released the “Pitmaster arena”
 - Revamped the Free to Play system of the game with several new and improved systems such as Raid Finder, Daily Challenge System, Daily Login Rewards, Membership Changes, and Loyalty Rewards
- For *Anarchy Online*:
 - Celebrated the 15th Anniversary!
 - Implemented an end-game Research Perkline for end-game players
 - Initiated a new system of membership rewards
 - Introduced a new series of automated, rotating quests with unique rewards and added a new currency to help support new automated events, as well as future event content
- *Anarchy Online*’s and *Age of Conan* membership and store optimizations have had a positive impact in reducing the games’ slowly declining revenues
- Overall, Funcom’s large scale MMOs 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. For all our games the Company will continue to tweak and optimize the shop, membership offer and entry cost.
- LEGO® *Minifigures Online*’s license agreement with LEGO will expire on 1st October 2016 and the Company has no current plans to renew it.
- *The Park* was released for the Xbox One and PlayStation 4 platforms on 3 May and the project is now finished. Overall sales are in line with internal expectations, with consoles sales being on par with PC sales. The project’s non-revenue related goals were also met successfully:
 - Adapting to short development cycles and small budgets to allow for quick experimentation;
 - Generating high amounts of press and community attention without a marketing budget;
 - Learning a new technology (Unreal Engine 4) and starting to integrate it to the *Dreamworld Technology* engine;

GAMES IN OPERATION

- For *The Secret World*, the following activities were done in 2Q16:
 - Released Issue 15 “The Sleuth’s Gallery” and the Museum of the Occult
 - Released a new social clothing bag, sports related items and a new Race Horse mount
 - Celebrated the 4 year anniversary

- Leverage the assets and content from *The Secret World* to speed up development of other products;
- Grow the value of *The Secret World* IP by creating more products connected to it.
- Release a game on the current generation of Console platforms to learn about their development, marketing and publishing processes

GAMES IN DEVELOPMENT

- The Company is working on switching to the new strategy while developing and operating the Live games.
- Regarding *Conan Exiles*:
 - In June the Company announced that the PC Early Access date has been moved to January 2017. Funcom's strengthened financial situation allows more development time to be added to the project, which should ensure a better product with higher sales potential that will serve to increase the value of the Company in the long term.
 - Development is on track and the team is meeting the internal milestones set out for the project
 - Funcom will be gearing up marketing and promotional activities for *Conan Exiles* a few months ahead of Early Access
- Prototyping and concept development for new titles will be a continuous part of normal operations for the business. As previously communicated, the Company will develop two additional games of the "smaller" type during 2016 as outlined in the Company Strategy.
- One "smaller" game based on "*The Secret World*" IP and designed to experiment and innovate in a small niche market and build the internal competency of the North Carolina team in Unreal Engine 4 is under development and prototyping according to plan. This game is preliminarily scheduled for release on PC in Q4 2016 and due to their budget limitation and experimental focus is expected to have limited revenue impact. The game will be publicly revealed and PR and Marketing initiatives will be started 4 to 6 weeks prior to its release.
- The additional "smaller" game that was announced to start production in 2016 following *Conan Exiles* is still in early concept development phase in the Oslo studio and is expected to go through concept review and project approval by the end of the year. This will be a game utilizing the Conan the Barbarian IP and production is not expected to start until after the Early Access release of *Conan Exiles*.

TECHNOLOGY

- The *Dreamworld Technology* is being upgraded to take advantage of the strengths of 3rd party engines, integrating these technologies with the existing modules and systems of the *Dreamworld Technology*.
- The Unreal Engine 4 is the first game engine being integrated with *Dreamworld Technology*. It allows content creators to use the advance toolchain of that engine while keeping the *Dreamworld Technology* unique systems such as multiplayer backend, deployment systems, workflow and productivity pipelines.

MISCELLANEOUS

Transactions with related parties

- On 13 April 2016, KGJ Investments and the Company signed an agreement to combine the USD 3,950 thousand working capital loan and the USD 4,000 thousand convertible loan into a new convertible loan of USD 7,950 thousand with maturity date of 30 June 2019, interest rate of 6%, and conversion price of USD 0.18 per share. On 31 May 2016, USD 7,700 thousand of this new loan was converted into 42,777,778 Funcom shares at the price of USD 0.18 per share.
- On 19 April 2016, KGJ Investments granted to the Company a bridge loan amounting to USD 500 thousand bearing interest at a rate of 5% per annum. On 7 June 2016, the Company reimbursed the loan and the related accrued interest with the proceeds received from the private placement.
- On 20 July 2016, the bondholders agreed to modify the convertible bond by postponing the maturity date from 15 December 2016 to 31 December 2018, by decreasing the fixed interest rate from 5% to 3.5% per annum, by decreasing the conversion price from USD 0.24 per share to USD 0.10 per share, by increasing the number of bonds from 62 to 6,200,000, and by decreasing the face value of each bond from USD 100k each to USD 1 each. On 27 July 2016, accrued interest on the convertible bond amounting to USD 879,197 was converted into additional bonds of the same value. In consequence, since then 7,079,194 bonds with a face value of USD 1 each are outstanding.
- On 20 July 2016, the maturity date of the convertible loan was advanced from 30 June 2019 to 31 December 2016, and the related conversion price was decreased from USD 0.18 per share to USD 0.10 per share.

Risk factors

- For information regarding risk factors for the Company and its games, please refer to note 27 in the 2015 Annual Report (http://www.funcom.com/investors/funcom_n.v._publishes_its_2015_annual_financial_statements).
- For evaluations of the risks related to 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; being especially the performance of the current Live Games, the performance of the upcoming *Conan Exiles* game and new products to be released in the future being the most important.
- The trend of slowly declining revenues on the current Live Game portfolio is expected to continue as in previous quarters due to the ageing of the games. The Company will continue to support the current Live Games as long as they continue to contribute positively to the Company's results.
- *Conan Exiles*' development is on track and marketing and promotional activities will be stepped up in the months closer to the Early Access release
- A new game of the "smaller" type based on "The Secret World" IP is preliminarily scheduled for release in Q4 and, being an experimental project, is not expected to have significant impact on the Company's revenues. The game will be revealed and PR and Marketing initiatives will start 4 to 6 weeks prior to release.
- On 8 August 2016, the Company completed a Subsequent Offering to the Private Placement through the issuance of 15,000,000 Offer Shares at NOK 0.55 per Offer Share, raising gross proceeds of NOK 8,250,000. This transaction impacted positively both the equity and the cash balance of the Company.
- Based on its current revenue and cost projections, on the recent postponement of the maturity of the convertible bond to 31 December 2018, and on the financial instruments at the disposal of the Company including but not restricted to financing and equity issues, the Company expects to have the ability to fund its operations for the next twelve months after the end of 2Q16.

Badhoevedorp, The Netherlands, 26 August 2016

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.
- This report contains forward-looking statements. These statements are based on current estimates and projections of Funcom's management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results, performance or achievements of Funcom to be materially different from those that may be expressed or implied by such statements. Such factors include inter alia those discussed in the Funcom's Annual Report 2015 note 27.
- For more information about Funcom, its games and its organization, please see www.funcom.com

* "Funcom", "The Secret World", "Anarchy Online", "The Park" and "Dreamworld Technology" are registered trademarks of Funcom Oslo AS.

FUNCOM N.V. - SECOND QUARTER FINANCIALS OF 2016
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Second Quarter		Accumulated		Full Year
	2016	2015	2016	2015	2015
<i>(Figures in TUSD)</i>					
Revenue	1,718	2,654	3,766	5,426	10,238
Operating expenses	-2,131	-2,393	-3,915	-4,678	-9,845
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-412	261	-149	748	393
Depreciation, amortization and impairment charges	-875	-3,669	-1,799	-4,426	-6,571
Total operating expenses	-3,006	-6,063	-5,714	-9,104	-16,417
Operating result ("EBIT") from continuing operations	-1,288	-3,408	-1,948	-3,677	-6,179
Share of result from equity-accounted entities		-207		-173	-173
Net financial items	-634	-542	-735	-471	-478
Profit (loss) before income taxes from continuing operations	-1,921	-4,157	-2,682	-4,321	-6,829
Income taxes	1	-12	1	8	40
Profit (loss) for the period	-1,921	-4,169	-2,682	-4,313	-6,789
Attributable to shareholders of Funcom N.V.	-1,921	-4,169	-2,682	-4,313	-6,789
Earnings per share basic (USD)	-0.01	-0.05	-0.02	-0.05	-0.07
Earnings per share fully diluted (USD)	-0.01	-0.05	-0.02	-0.05	-0.07

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-1,921	-4,169	-2,682	-4,313	-6,789
Foreign exchange translation difference	468	124	748	-591	-1,415
Total comprehensive income for the period	-1,452	-4,044	-1,933	-4,904	-8,204

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June		31 Dec.
	2016	2015	2015
<i>(Figures in TUSD)</i>			
ASSETS			
<u>Non-current assets</u>			
Deferred tax assets			
Intangible assets	5,324	5,014	4,394
Tangible fixed assets	63	165	100
Financial investments	65	19	65
Total non-current assets	5,453	5,199	4,559
<u>Current assets</u>			
Trade receivables	896	1,218	1,443
Prepayments and other assets	221	1,103	506
Cash and cash equivalents	5,100	2,118	616
Total current assets	6,217	4,439	2,565
Total assets	11,669	9,638	7,124
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital	11,058	4,799	4,802
Reserves	165,482	157,494	157,105
Retained earnings	-174,150	-168,992	-171,468
Total equity	2,389	-6,699	-9,561
<u>Liabilities</u>			
Deferred tax liabilities	1	16	25
Long-term liabilities	290	3,287	3,434
Deferred revenue	771	1,392	1,037
Short-term loans and borrowings	6,200	9,790	10,150
Other short term liabilities	2,018	1,851	2,040
Total liabilities	9,280	16,337	16,685
Total equity and liabilities	11,669	9,638	7,124

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Second Quarter		Period ended 30 June		Full Year
	2016	2015	2016	2015	2015
<i>(Figures in TUSD)</i>					
Cash flow from operating activities					
Profit (loss) before income tax	-1,921	-4,157	-2,682	-4,321	-6,829
Adjustments for:					
Depreciation, amortization and impairment	875	3,669	1,799	4,426	6,571
Share-based payments	23	270	111	550	814
Share of result from equity-accounted entities		206		173	173
Effect of exchange rate fluctuations		1,715	-186	1,235	442
Changes in working capital	-176	30	1,019	-282	466
Net cash from operating activities	-1,200	1,734	61	1,780	1,637
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,325	-884	-2,683	-1,960	-3,412
Investment in/loan to (from) equity-accounted entities		126		4	11
Net cash from investing activities	-1,325	-757	-2,683	-1,956	-3,401
Cash flow from financing activities					
Net proceeds from issue of share capital	6,168	411	6,168	411	411
Proceeds / repayments from (of) borrowings and leases					-23
Net cash from financing activities	6,168	411	6,168	411	388
Change in cash and cash equivalents	3,644	1,388	3,546	235	-1,376
Cash and cash equivalents, beginning of period	1,015	2,452	616	3,705	3,705
Effect of exchange rate fluctuations	442	-1,722	937	-1,823	-1,714
Cash and cash equivalents, end of period	5,100	2,118	5,100	2,118	616

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	30 June		Full Year
	2016	2015	2015
<i>(Figures in TUSD)</i>			
Opening balance	-9,561	-2,756	-2,756
Total comprehensive income for the period	-1,933	-4,904	-8,204
Equity issues	13,222	411	411
Granting of warrants			173
Exercise of warrants	157		
Equity portion of the new convertible loan	394		
Conversion rights reserve			
Share-based payments	111	550	814
Closing balance	2,389	-6,699	-9,561

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 2016 were approved for issue by the Supervisory Board on 25 August 2016.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 2Q16 reports slightly declining revenues from existing games and decreased operating costs compared to 2Q15 due to internal cost-saving measures. There were no pervasive or material changes in 2Q16 that could negatively affect 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 six months ended 30 June 2016 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 concerning the performance of the games and the outcome of the current corporate developments in the Group. Therefore, the actual performance of the Company may deviate significantly from the projections that 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 2016 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 2015 annual report.

As of 1 January 2016, the Group has 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 2017 or later.

All amounts are in USD thousand 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.

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 that 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 that 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 that 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 United States Dollars.

8 Financial investments

Financial investments consist of long-term receivables.

9 Liabilities

Long-term liabilities consist of USD 238 thousand convertible loan and USD 52 thousand rental deposits for the sublet of office space.

On 13 April 2016, the USD 3,950 thousand working capital loan and the USD 4,000 thousand convertible loan were restructured into a new convertible loan. Compared to the prior convertible loan, the maturity date was changed from 27 June 2017 to 30 June 2019, the interest rate was increased from 5% per annum to 6% per annum, and the conversion price was changed from USD 0.86 to USD 0.18. On 31 May 2016, an amount of USD 7,700 thousand out of the USD 7,950 thousand new convertible loan was converted into 42,777,778 shares at USD 0.18 per share. As of 30 June 2016, the loan has a carrying amount of USD 238 thousand and an actual balance due of USD 250 thousand.

Short-term liabilities consist of USD 6,200 thousand convertible bond.

As of 30 June 2016, 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 15 December 2016. They are convertible into common shares of Funcom N.V. at a price of 0.24 USD per share. The interest is payable at maturity or conversion in either cash or Funcom shares at the discretion of the bondholder. As of 30 June 2016, the bonds have a carrying amount of USD 6,200 thousand and an actual balance due of USD 6,200 thousand.

The carrying value of the interest-bearing debt at the end of 2Q16 amounts to approximately USD 6,439 thousand.

On 19 April 2016, KGJ Investments granted to the Company a bridge loan amounting to USD 500 thousand bearing interest at a rate of 5% per annum. On 7 June 2016, the Company reimbursed the loan and the related accrued interest with the proceeds received from the private placement.

10 Cash flows

A significant part of Funcom's cash and cash equivalents are denominated in Norwegian kroner, in United States Dollar and in Euro. The Company's NOK, USD and EUR cash holdings are a natural hedge against the expectedly large proportion of future operating expenses arising in NOK, USD and EUR.

11 Average number of shares

	Second quarter		Six months	
	2016	2015	2016	2015
Average number of shares	139,594,245	91,711	115,901,190	91,028

12 Other comprehensive income

In accordance with IAS 21, the Company reported in 2Q16 under the 'Other comprehensive income' a foreign exchange gain amounting to USD 468 thousand mainly related to the reconciliation of intercompany balances in foreign currencies and to the translation of foreign operations into the reporting currency.

13 Equity

The equity of the Company increased from USD -9,953 thousand at the end of 1Q16 to USD 2,389 thousand at the end of 2Q16. The increase was mainly the result of the net proceeds of USD 6,011 thousand received from the private placement and the partial conversion of the convertible loan for an amount of USD 7,700 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 future increase of the equity position. The company also evaluates various strategic options that 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:

- Online games - like *The Secret World* and *Age of Conan*
- Offline games - like *The Park*, *Dreamfall* and *The Longest Journey*

Segment information

	Revenue from external customers		Segment profit (loss) *	
	January - June		January - June	
	2016	2015	2016	2015
Online games	3,183	5,052	1,226	2,165
Offline games	320	141	266	128
Other activities	263	233	-27	-36
Total	3,766	5,426	1,465	2,257
General and administrative expenses			-1,606	-1,515
Depreciation, amortization and impairment charges			-1,799	-4,426
Share of result from equity-accounted entities				-173
Net financial items			-734	-463
Profit (loss) before tax (from continuing operations)			-2,673	-4,321

	Revenue from external customers		Segment profit (loss) *	
	April - June		April - June	
	2016	2015	2016	2015
Online games	1,379	2,422	468	893
Offline games	193	100	143	196
Other activities	146	132	-19	-105
Total	1,718	2,654	592	984
General and administrative expenses			-998	-1,130
Depreciation, amortization and impairment charges			-876	-292
Share of result from equity-accounted entities				-173
Net financial items			-633	949
Profit (loss) before tax (from continuing operations)			-1,914	338

*) 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.

*) Other activities refer to Funcom Games Canada subleasing activities. Segment profit (loss) is measured as revenue earned less original rental expenses.

	Online games	Offline games
Segment assets as at 30 June 2015	4,896	
Segment assets as at 30 June 2016	5,205	

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

15 Subsequent events

On 20 July 2016, the bondholders agreed to modify the convertible bond by postponing the maturity date from 15 December 2016 to 31 December 2018, by decreasing the fixed interest rate from 5% to 3.5% per annum, by decreasing the conversion price from USD 0.24 per share to USD 0.10 per share, by increasing the number of bonds from 62 to 6,200,000, and by decreasing the face value of each bond from USD 100k each to USD 1 each.

On 27 July 2016, accrued interest on the convertible bond amounting to USD 879,197 was converted into additional bonds of the same value. In consequence, since then 7,079,194 bonds with a face value of USD 1 each are outstanding.

On 20 July 2016, the maturity date of the convertible loan was advanced from 30 June 2019 to 31 December 2016, and the related conversion price was decreased from USD 0.18 per share to USD 0.10 per share.

On 8 August 2016, the Company completed a Subsequent Offering to the Private Placement through the issuance of 15,000,000 Offer Shares at NOK 0.55 per Offer Share, raising gross proceeds of NOK 8,250,000. This transaction impacted positively both the equity and the cash balance of the Company.

Directors' responsibility statement

The sole member 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*), confirms that to the best of his knowledge:

The Consolidated Interim Financial Statements for the six months ended 30 June 2016 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 consequences thereof on the unaudited interim condensed consolidated financial statements for the Company for the half year ended 30 June 2016;
- 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 2016

The Management Board of Funcom N.V.

Rui Casais (Management Board member and CEO)