



# 2016 Third Quarter Report

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

## SUMMARY

- Following the private placement completed on 31 May 2016, Funcom issued on 16 August 2016 15,000,000 new shares at NOK 0.55 per share through a subsequent offering. The net proceeds amounted to USD 954 thousand.
- The total Equity of the Company increased from USD 2,389 thousand at the end of 2Q16 to USD 3,278 thousand at the end of 3Q16. The increase was mainly due to the subsequent offering.
- Revenues in 3Q16 amount to USD 1,728 thousand compared to USD 2,195 thousand in 3Q15, following a gradual and expected decrease in the sales from the current Live Games.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 3Q16 amount to USD 97 thousand compared to USD -365 thousand in 3Q15 due to lower operating expenses in 3Q16.
- Earnings before Interest and Tax (EBIT) for 3Q16 amount to USD -1,059 thousand compared to USD -1,754 thousand in 3Q15.
- The cash position improved from USD 5,100 thousand at the end of 2Q16 to USD 5,208 thousand at the end of 3Q16, mainly due to the net proceeds received from the subsequent offering.
- The Live Games – *The Secret World*®, *Anarchy Online*®\* and *Age of Conan*™ – were the major contributors to the revenues.
- *Conan Exiles*™ is set to release in Early Access in January 2017 and development of the project is on track.

At the extraordinary meeting on 5 October 2016, Mr. Michel Henri Georges Cassius resigned from his position of Chairman of the Board of Supervisory Directors. Mr. Ole Gladhaug was appointed as the Chairman of the Board; Mr. Fredrik Malmberg, Mr. Egil Kvannli and Mr. Magnus Slåttekjær Grøneng were appointed as new Supervisory Directors.

## FINANCIALS

- Following the private placement completed on 31 May 2016, Funcom issued on 16 August 2016 15,000,000 new shares at NOK 0.55 per share through a subsequent offering. The net proceeds amounted to USD 954 thousand.
- The total Equity of the Company increased from USD 2,389 thousand at the end of 2Q16 to USD 3,278 thousand at the end of 3Q16. The increase was mainly due to the subsequent offering.
- Revenues in 3Q16 amount to USD 1,728 thousand compared to USD 2,195 thousand in 3Q15, following a gradual and expected decrease in the sales from the current Live Games.
- The company continued its cost-saving efforts in 3Q16 and realized operating cost savings of USD

929 thousand compared to 3Q15. Despite the decrease in revenues, the Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) improved from USD -365 thousand in 3Q15 to USD 97 thousand in 3Q16 mainly due to the cost savings.

- Earnings before Interest and Tax (EBIT) for 3Q16 amount to USD -1,059 thousand compared to USD -1,754 thousand in 3Q15 when the Company recorded an impairment charge of USD 720 thousand on its games.
- The loss for the period was USD -788 thousand compared to USD -215 thousand in 3Q15, and USD -1,921 thousand in 2Q16.
- The cash position improved from USD 5,100 thousand at the end of 2Q16 to USD 5,208 thousand at the end of 3Q16, mainly due to the net proceeds received from the subsequent offering.
- On 27 July 2016, the interest on the convertible bond accrued up to 26 February 2016 in the amount of USD 879 thousand was converted into additional bonds. Since then, the convertible bond consist of 7,079,194 bonds with a face value of USD 1 each. The interest on the convertible bond for the period from 27 February 2016 till 19 July 2016 was paid in cash in the amount of USD 124 thousand, and the interest for the period from 20 July 2016 till 31 December 2018 shall be payable at the latter date.

## THE FUNCOM STRATEGY

- The Company strategy is focused on different types of products and production cycles. It consists of:
  - Developing 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 3<sup>rd</sup> 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 3<sup>rd</sup> 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 two games released per year, of which one is a 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 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.

## GAMES IN OPERATION

- For *The Secret World*, the following activities were done in 3Q16:
  - Released a significant update to the pvp warzone Fusang
  - Introduced a new social clothing bag, auxiliary weapon moulds and gifting options to the store
  - Added the 18 month membership reward
- In addition, The Secret World team is mainly focused on a large update to the game to be released during the first half of 2017
  - Major upgrade to both retention and acquisition mechanics and content of the game
  - More information expected to be available during Q1 2017
- For *Age of Conan*, development of a new dungeon, Slithering Chaos is underway.
- For *Anarchy Online* the work to bring Anarchy Online to the Steam platform is continuing, with the estimated release period to be Q4 2016.
- 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 expired on 1<sup>st</sup> October 2016 and the game’s operations were terminated
- The Park’s development has fully ended and the project has no regular operational costs.
- Game announced on 4 October and released on Steam on 25 October
  - Similar to how The Park was a project to bring the Funcom Oslo team up to speed with Unreal Engine 4 and shorter development cycles, Hide and Shriek had the same objectives but for the team in Funcom Inc in North Carolina
  - In addition, this game allowed Funcom to obtain experience in localizing a game in 11 languages and bring a game to the attention of Streamers/YouTubers, experience which is very relevant for the Conan Exiles Early Access launch in January
  - The project’s goal has been met and the team is preparing for new game concepts, while working on the previously mentioned The Secret World update

## GAMES IN DEVELOPMENT

- The Company is working on switching to the new strategy while developing and operating the Live games.
- Regarding *Conan Exiles*:
  - Development is progressing according to plan:
    - Core survival systems are in place and undergoing final polish for Early Access
    - Advanced features are in development and progressing well for inclusion in Early Access
    - Client and server performance optimization is ongoing and on track to meet internal Early Access targets
  - Development of the Xbox One version of the game has been initiated
  - Marketing and promotional activities to start in earnest during November, with videos, screenshots, interviews, blog posts and other media beats to increase awareness of the game in advance of the Early Access release
  - The company’s goal for Conan Exiles is to be in the top 10 chart of multiplayer survival games on Steam a year after launch.

- Prototyping and concept development for new titles will be a continuous part of normal operations for the business.
- A game using the “Conan the Barbarian” IP 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. Production is not expected to start until after the Early Access release of *Conan Exiles*.
- Project concepting and prototyping to start in the North Carolina studio following the final updates to *Hide & Shriek*. New project greenlighting expected to happen during H1 2017

## TECHNOLOGY

- The *Dreamworld Technology* is being upgraded to take advantage of the strengths of 3<sup>rd</sup> 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 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 increasing the number of bonds from 62 to 6,200,000, by decreasing the face value of each bond from USD 100k each to USD 1 each, and by decreasing the conversion price from USD 0.24 per share to USD 0.10 per share in accordance with the convertible bond agreement. 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. The interest on the convertible bond for the period from 27 February 2016 till 19 July 2016 was paid in cash in the amount of USD 124 thousand, and the interest for the period from 20 July 2016 till 31 December 2018 shall be payable at the latter date.
- 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 in accordance with the convertible loan agreement.

## 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](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 begin in earnest during November in preparation for the January Early Access release. In addition, Xbox One development has been initiated.
  - The company’s goal for *Conan Exiles* is to be in the top 10 chart of multiplayer survival games on Steam a year after launch.
- 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 3Q16.

**Badhoevedorp, The Netherlands, 2 November 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](http://www.funcom.com)

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

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

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

(Figures in TUSD)	Third Quarter		Accumulated		Full Year
	2016	2015	2016	2015	2015
Revenue	1,728	2,195	5,494	7,621	10,238
Operating expenses	-1,631	-2,560	-5,546	-7,238	-9,845
<b>Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)</b>	<b>97</b>	<b>-365</b>	<b>-52</b>	<b>383</b>	<b>393</b>
Depreciation, amortization and impairment charges	-1,156	-1,389	-2,955	-5,814	-6,571
Total operating expenses	-2,787	-3,949	-8,501	-13,053	-16,417
<b>Operating result ("EBIT") from continuing operations</b>	<b>-1,059</b>	<b>-1,754</b>	<b>-3,006</b>	<b>-5,432</b>	<b>-6,179</b>
Share of result from equity-accounted entities				-173	-173
Net financial items	272	1,539	-463	1,068	-478
<b>Profit (loss) before income taxes from continuing operations</b>	<b>-786</b>	<b>-215</b>	<b>-3,469</b>	<b>-4,537</b>	<b>-6,829</b>
Income taxes	-1	-9		-2	40
<b>Profit (loss) for the period</b>	<b>-788</b>	<b>-224</b>	<b>-3,469</b>	<b>-4,538</b>	<b>-6,789</b>
Attributable to shareholders of Funcom N.V.	-788	-224	-3,469	-4,538	-6,789
Earnings per share basic (USD)	0.00	0.00	-0.02	-0.05	-0.07
Earnings per share fully diluted (USD)	0.00	0.00	-0.02	-0.05	-0.07

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Profit (loss) for the period	-788	-224	-3,469	-4,538	-6,789
Foreign exchange translation difference	528	-2,063	1,276	-2,654	-1,415
<b>Total comprehensive income for the period</b>	<b>-259</b>	<b>-2,288</b>	<b>-2,193</b>	<b>-7,192</b>	<b>-8,204</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(Figures in TUSD)	30 September		31 Dec.
	2016	2015	2015
<b>ASSETS</b>			
<u>Non-current assets</u>			
Intangible assets		5,998	4,392
Tangible fixed assets		45	126
Financial investments		65	84
<b>Total non-current assets</b>		<b>6,108</b>	<b>4,601</b>
<u>Current assets</u>			
Trade receivables		606	1,000
Prepayments and other assets		242	983
Cash and cash equivalents		5,208	1,106
<b>Total current assets</b>		<b>6,057</b>	<b>3,089</b>
<b>Total assets</b>		<b>12,165</b>	<b>7,691</b>
<b>EQUITY AND LIABILITIES</b>			
<u>Equity</u>			
Share capital		11,734	4,799
Reserves		166,483	155,583
Retained earnings		-174,938	-169,217
<b>Total equity</b>		<b>3,279</b>	<b>-8,835</b>
<u>Liabilities</u>			
Deferred tax liabilities		1	16
Long-term liabilities		7,054	13,305
Deferred revenue		706	1,131
Short-term loans and borrowings		244	10,150
Other short term liabilities		880	2,073
<b>Total liabilities</b>		<b>8,886</b>	<b>16,526</b>
<b>Total equity and liabilities</b>		<b>12,165</b>	<b>7,691</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(Figures in TUSD)	Third Quarter		Period ended 30 September		Full Year
	2016	2015	2016	2015	2015
Cash flow from operating activities					
Profit (loss) before income tax	-787	-215	-3,469	-4,537	-6,829
Adjustments for:					
Depreciation, amortization and impairment	1,156	1,389	2,955	5,814	6,571
Share-based payments	113	152	225	702	814
Share of result from equity-accounted entities				173	173
Effect of exchange rate fluctuations	34	-4,912	-152	-3,677	442
Changes in working capital	-60	500	959	218	466
<b>Net cash from operating activities</b>	<b>457</b>	<b>-3,086</b>	<b>518</b>	<b>-1,306</b>	<b>1,637</b>
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1,808	-695	-4,491	-2,656	-3,412
Investment in/loan to (from) equity-accounted entities		6		11	11
<b>Net cash from investing activities</b>	<b>-1,808</b>	<b>-689</b>	<b>-4,491</b>	<b>-2,645</b>	<b>-3,401</b>
Cash flow from financing activities					
Net proceeds from issue of share capital	954		7,122	411	411
Proceeds / repayments from (of) borrowings and leases		-23		-23	-23
<b>Net cash from financing activities</b>	<b>954</b>	<b>-23</b>	<b>7,122</b>	<b>388</b>	<b>388</b>
Change in cash and cash equivalents	-397	-3,798	3,149	-3,563	-1,376
Cash and cash equivalents, beginning of period	5,100	2,118	616	3,705	3,705
Effect of exchange rate fluctuations	505	2,787	1,442	964	-1,714
<b>Cash and cash equivalents, end of period</b>	<b>5,208</b>	<b>1,106</b>	<b>5,208</b>	<b>1,106</b>	<b>616</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Figures in TUSD)	30 September		Full Year
	2016	2015	2015
<b>Opening balance</b>	<b>-9,561</b>	<b>-2,756</b>	<b>-2,756</b>
Total comprehensive income for the period	-2,193	-7,192	-8,204
Equity issues	14,176	411	411
Granting of warrants			173
Exercise of warrants		157	
Equity portion of the new convertible loan		394	
Equity portion of the additional convertible bond		82	
Share-based payments		225	702
<b>Closing balance</b>	<b>3,278</b>	<b>-8,835</b>	<b>-9,561</b>

# NOTES TO THE INTERIM REPORT

## 1 Corporate information

Funcom N.V. is a limited company registered in The Netherlands, and the shares are publicly traded on the Oslo Stock exchange under the ticker "FUNCOM". The principal activity of the Company is to develop, market and carry on business in computer games in the broadest sense. The unaudited interim condensed consolidated financial statements for the Company for the nine months ended 30 September 2016 were approved for issue by the Supervisory Board on 1 November 2016.

## 2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 3Q16 reports slightly declining revenues from existing games and decreased operating costs compared to 3Q15 due to internal cost-saving measures. There were no pervasive or material changes in 3Q16 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 nine months ended 30 September 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 nine months ended 30 September 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 7,003 thousand convertible bond and USD 51 thousand rental deposits for the sublet of office space.

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 increasing the number of bonds from 62 to 6,200,000, by decreasing the face value of each bond from USD 100k each to USD 1 each, and by decreasing the conversion price from USD 0.24 per share to USD 0.10 per share in accordance with the convertible bond agreement.

On 27 July 2016, accrued interest on the convertible bond amounting to USD 879,194 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. The interest from, and including, 20 July 2016 to the maturity date shall be paid at maturity date.

As of 30 September 2016, the bonds have a carrying amount of USD 7,003 thousand and an actual balance due of USD 7,079 thousand.

Short-term liabilities consist of USD 244 thousand convertible loan.

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 in accordance with the convertible loan agreement. The interest rate of 6% remained the same. As of 30 September 2016, the loan has a carrying amount of USD 244 thousand and an actual balance due of USD 250 thousand.

The carrying value of the interest-bearing debt at the end of 3Q16 amounts to approximately USD 7,247 thousand.

## **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

	Third quarter		Nine months	
	2016	2015	2016	2015
Average number of shares	240,021	92,140	157,576	91,438

## 12 Other comprehensive income

In accordance with IAS 21, the Company reported in 3Q16 under the 'Other comprehensive income' a foreign exchange gain amounting to USD 528 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 2,389 thousand at the end of 2Q16 to USD 3,278 thousand at the end of 3Q16. The increase was mainly the result of the net proceeds of USD 954 thousand received from the subsequent offering. 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 – such as *Anarchy Online*, *The Secret World* and *Age of Conan*
- Offline games – such as *The Park*, *Dreamfall* and *The Longest Journey*

**Segment information**

	Revenue from external customers		Segment profit (loss) *	
	January - September		January - September	
	2016	2015	2016	2015
Online games	4,458	6,916	1,732	3,031
Offline games	650	358	374	69
Other activities	386	347	-32	-42
<b>Total</b>	<b>5,494</b>	<b>7,621</b>	<b>2,075</b>	<b>3,058</b>
General and administrative expenses			-2,127	-2,675
Depreciation, amortization and impairment charges			-2,955	-5,814
Share of result from equity-accounted entities				-173
Net financial items			-463	1,068
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-3,469</b>	<b>-4,537</b>

	Revenue from external customers		Segment profit (loss) *	
	June - September		June - September	
	2016	2015	2016	2015
Online games	1,275	1,864	506	866
Offline games	330	217	108	-59
Other activities	123	114	-5	-6
<b>Total</b>	<b>1,728</b>	<b>2,195</b>	<b>610</b>	<b>801</b>
General and administrative expenses			-521	-1,160
Depreciation, amortization and impairment charges			-1,147	-1,388
Share of result from equity-accounted entities				
Net financial items			271	1,531
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-786</b>	<b>-216</b>

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

\*) 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 September 2015	4,257	
Segment assets as at 30 September 2016	5,888	

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

**15 Subsequent events**

At the extraordinary general meeting held on 5 October 2016, Mr. Michel Henri Georges Cassius resigned from his position of Chairman of the Board of Supervisory Directors. Mr. Ole Gladhaug was appointed as the Chairman of the Board; Mr. Fredrik Malmberg, Mr. Egil Kvannli and Mr. Magnus Slåttekjær Grøneng were appointed as new Supervisory Directors.