

2017 Second Quarter Financial Report

The Funcom® Group
Funcom N.V. and subsidiaries

1 Financial highlights

- Revenues in 2Q17 amount to USD 3,072 thousand, up 79% from 2Q16. Conan Exiles was the main contributor despite a quarter without launch activity for this game. The relaunch of Secret World Legends on 26 June was successful. With only 5 days counting towards 2Q17 and as sales of Secret World Legends was as expected low in the months prior to relaunch, the relaunch had little effect on this quarter. The other games had a small increase in revenues from previous quarter driven by continued additional revenue from Anarchy Online due to the Steam launch in February. Long term they are expected to stay on a declining trend.
- After the very successful launch of Conan Exiles in 1Q17 focus has been on fixing bugs and investing to improve, expanded and prepare the game for Xbox One Game Preview, “*The Frozen North*” expansion update, as well as the longer term work towards full launch including PS4.
- 2Q17 was the second consecutive profitable quarter for Funcom. 1H17 is the most profitable half-year period ever in Funcom’s history.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2Q17 amount to USD 917 thousand compared to USD -412 thousand in 2Q16. The EBITDA margin was 29.9% in 2Q17 vs 61.4% in 1Q17. The margin reduction is primarily due to lower revenues, while less launch related cost in 2Q17 reduced the decline. The EBITDA of 1H17 was USD 7,624 thousand, the strongest ever in Funcom history, and compared to USD -149 thousand in 1H16.
- The total equity increased from USD 2,389 thousand at the end of 2Q16 to USD 14,123 thousand at the end of 2Q17, reflecting profits and conversion of debt in the period.
- The cash position increased from USD 5,100 thousand at the end of 2Q16 to USD 7,818 thousand at the end of 2Q17. The cash flow during 2Q17 was negative due to continuous investments in Conan Exiles and a working capital change of USD -2,169 thousand. The change in working capital was primarily due to payments of royalties on revenue received in 1Q17, payment of rent deposit for new Oslo office and increasing trade payables.
- The debt was almost halved due to the conversion of USD 3.5 million (plus accrued interest) of the convertible bond into equity in April 2017. The face value of the convertible bond was reduced from USD 6,899 thousand to USD 3,399 thousand.

2 Other Financials

2.1 Convertible Bond:

- The convertible bond is the only outstanding interest bearing debt of Funcom
- Outstanding principal: 3,399,194 bonds with a face value of USD 1 each, with a carrying amount of USD 3,347 thousand as of 30 June 2017
 - Maturity date: 31 December 2018
 - Conversion price: USD 0.1036 per share
 - Interest rate: 3.5% per annum; due at maturity
 - The convertible bond was almost halved during 2Q17, due to a conversion on 11 April 2017, where USD 3,500 thousand (plus accrued interest) was converted into 34,675,480 new shares in Funcom N.V. at a price of USD 0.1036 per share.

2.2 Deferred Tax Assets:

- USD 1,069 thousand is presented as deferred tax assets in the balance sheet, in line with IAS 12.35 and consistent with Funcom accounting policy.
 - The tax asset is based on cumulated tax losses in the Norwegian subsidiary from prior years. Expected 2017 profit based on Q1 and Q2 results and outlook is expected to be sufficient to recover the accumulated tax loss. The loss will be utilized against the taxable profit.
 - Tax charge for the year will be calculated for the 4Q17 report.
 - The group has further unrecognized tax losses, primarily USD 11,843 thousand related to Funcom N.V (at year end 2016). These are generated from holding and financing activities and may only be offset against future profits from similar activities.

3 Game highlights

3.1 Secret World Legends:

- The Secret World was successfully relaunched as Secret World Legends, having exceeded internal expectations
- Initial launch through our own channels on 26 June 2017, with launch on Steam on 31 July 2017
- Good coverage from press and reception from players has helped spreading the word to new and old players alike
- Transylvania and Tokyo were the first of the planned updates to be released since launch, increasing the amount of content and expanding the storyline
- It was revealed that Johnny Depp's Infinitum Nihil and G4C Innovation's Gudrun Giddings have partnered to produce a TV series based on the Secret World universe

3.2 Conan Exiles:

- The game was released on Xbox One Game Preview on 16 August 2017 as planned, together with The Frozen North free expansion update on both Xbox and PC
- The new area and features of the game were positively received by the press and gamers, having generated a solid amount of attention

- On Xbox, the game quickly reached the top spots of the paid charts after launch. While the gameplay is bigger and better than ever, despite being in Game Preview the technical quality of the release was not as good as our players deserve. Action is taken to improve quality now and in future launches
 - The technical problems have had an impact on the store rating and sales of the game. The team is focused on addressing these issues as quickly as possible.
- On 21 August 2017 Funcom signed a co-publishing partnership with Koch media to publish and distribute the physical retail version of Conan Exiles for the full launch of the game on PC, Xbox One and Playstation 4 in Q1 2018

3.3 Future internal games:

- Two new projects are in early concept stages and will enter pre-production at the earliest during the second half of 2017:
 - In Funcom Oslo:
 - New game concept using the “Conan the Barbarian” IP
 - Pre-production pushed to early 2018 due to focus on Conan Exiles
 - In Funcom North Carolina:
 - New project is in early concepting stage with full production to be dependent on the performance of Secret World Legends

3.4 Other:

- Bearded Dragons Cooperation
 - The cooperation announced on 23 June 2017 regarding development support and publishing of a new game is underway
 - The game is in the “tactical turn-based strategy” genre, to be released in 2018 for PC, with console launch to be evaluated later
 - More information to be revealed when PR and Marketing activities are initiated in late 2017
 - This activity is part of Funcom’s strategy of releasing multiple game titles per year, providing significant activities more often and building a larger portfolio of products

NOTE: For more information about the games please see the 2Q17 Funcom presentation

4 Risk factors:

- For information regarding risk factors for the Company and its games, please refer to note 27 in the 2016 Annual Report.
- 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.

5 Outlook:

- The medium and long term financial performance of the Company looks positive. The outlook is influenced by a number of factors, especially the performance of Conan Exiles on PC, Xbox and PS4, the performance of the Free to Play model of Secret World Legends and the continued revenues of the older MMO games.
- Several planned future launch activities have the potential to boost Funcom revenues over the next 12 months. Conan Exiles launch on PS4, the launch of complete versions for PC and Xbox One and sale campaigns will be important, along with the launch of the Bearded Dragons partnership game.
- Following a successful relaunch of Secret World Legends the continued revenues from this game are expected to be significant.
- The other games are expected to decline over the long term due to the ageing of the games, despite the potential of small positive growth in periods.
- Based on the already generated revenue and run rate revenue of Conan Exiles and Secret World Legends, cost projections, and the financial instruments at the disposal of Funcom, including but not restricted to financing and equity issues, Funcom has the ability to fund its operations for at least the next twelve months after the end of 2Q17.

Badhoevedorp, The Netherlands, 31 August 2017

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 2016 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 2017
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT*(Figures in TUSD)*

	Second Quarter		Accumulated		Full Year
	2017	2016	2017	2016	2016
Revenue	3 072	1 718	13 992	3 766	7 322
Operating expenses	-2 154	-2 131	-6 368	-3 915	-7 091
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	917	-412	7 624	-149	231
Depreciation, amortization and impairment charges	-763	24	-1 495	-900	-1 811
Total operating expenses	-2 918	-2 107	-7 864	-4 815	-8 902
Operating result ("EBIT") from continuing operations	154	-389	6 129	-1 049	-1 580
Net financial items	45	-634	199	-735	-1 181
Profit (loss) before income taxes from continuing operations	199	-1 022	6 328	-1 783	-2 761
Income taxes		1		1	1 066
Profit (loss) for the period	199	-1 022	6 328	-1 783	-1 695
Attributable to shareholders of Funcom N.V.	199	-1 022	6 328	-1 783	-1 695
Earnings per share basic (USD)	0,00	-0,01	0,02	-0,02	-0,01
Earnings per share fully diluted (USD)	0,00	-0,01	0,02	-0,02	-0,01

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	199	-1 022	6 328	-1 783	-1 695
Foreign exchange translation difference	38	-431	-97	-151	-357
Total comprehensive income for the period	236	-1 452	6 231	-1 933	-2 052

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Figures in TUSD)*

	30 June		31 Dec.	
	2017	2016	2016	2016
ASSETS				
<u>Non-current assets</u>				
Intangible assets		7 702	5 324	6 617
Tangible fixed assets		2	63	4
Long term receivables		493	65	19
Deferred tax assets		1 069		1 069
Total non-current assets		9 266	5 453	7 709
<u>Current assets</u>				
Trade receivables		1 419	896	628
Prepayments and other receivables		489	221	466
Cash and cash equivalents		7 818	5 100	3 709
Total current assets		9 726	6 217	4 803
Total assets		18 992	11 669	12 512
EQUITY AND LIABILITIES				
<u>Equity</u>				
Share capital		13 481	11 058	11 808
Reserves		167 478	164 583	165 128
Retained earnings		-166 836	-173 251	-173 163
Total equity		14 123	2 389	3 773
<u>Liabilities</u>				
Deferred tax liabilities			1	1
Long-term liabilities		3 513	290	7 019
Deferred income		598	771	605
Short-term loans and borrowings		48	6 200	48
Other short term liabilities		710	2 018	1 065
Total liabilities		4 868	9 280	8 739
Total equity and liabilities		18 992	11 669	12 512

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*(Figures in TUSD)*

	Second Quarter		Period ended 30 June		Full Year
	2017	2016	2017	2016	2016
Cash flow from operating activities					
Profit (loss) before income tax	199	-1 022	6 328	-1 783	-2 761
Adjustments for:					
Depreciation, amortization and impairment	763	-24	1 495	900	1 811
Share-based payments	97	23	197	111	146
Share of result from equity-accounted entities					
Effect of exchange rate fluctuations				-186	
Changes in working capital	-2 169	-176	-1 558	1 019	2 125
Net cash from operating activities	-1 111	-1 200	6 463	61	1 320
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1 355	-426	-2 569	-1 784	-4 304
Investment in/loan to (from) equity-accounted entities					
Net cash from investing activities	-1 355	-426	-2 569	-1 784	-4 304
Cash flow from financing activities					
Net proceeds from issue of share capital	19	6 168	331	6 168	7 122
Proceeds / repayments from (of) borrowings and leases					
Net cash from financing activities	19	6 168	330	6 168	7 122
Change in cash and cash equivalents	-2 446	4 542	4 224	4 445	4 138
Cash and cash equivalents, beginning of period	10 286	1 015	3 710	616	616
Cash and cash equivalents, end of period before exchange	7 840	5 557	7 934	5 061	4 755
Effect of exchange rate fluctuations	-22	-457	-116	38	-1 045
Cash and cash equivalents, end of period after exchange effect	7 818	5 100	7 818	5 100	3 710

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*(Figures in TUSD)*

	30 June		Full Year	
	2017	2016	2016	2016
Opening balance				
Total comprehensive income for the period	3 773	-9 561	-9 561	-9 561
Equity issues	6 231	-1 933	-1 933	-2 052
Granting of warrants	3 767	13 222	13 222	14 609
Exercise of warrants			156	157
Equity portion of the new convertible loan				394
Equity portion of the additional convertible bond				82
Share-based payments			197	111
Closing balance	14 123	2 389	2 389	3 773

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 2017 were approved for issue by the Supervisory Board on 31 August 2017.

2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 1H17 reports a large increase in revenue compared to 1H16 due to the launch of *Conan Exiles* on 31 January. There were no pervasive or material changes in 2Q17 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 2017 have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.

The unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 2017 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 2016 Annual Report.

As of 1 January 2017, 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 with an adoption date on 1 January 2018 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 confirmed 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

Per copy sales of new games, whether delivered via packaged goods (boxes) or via the Internet (game download), as well as sales through third-party distribution platforms, are recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated customer life, normally 1 – 2 months. Revenues from sales of in-game items / micro-transactions and points are 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.

Revenues from subscriptions are recognized over the subscription period that is from the date of subscription purchase until subscription end, normally 1 – 12 months.

3 Operating revenues

The revenues mainly consist of sales of game software, subscriptions, in-game items and royalties. Due to lack of visibility same month accruals have not been made for Steam revenues, and correspondingly USD 765 thousand March revenue was booked in Q2. Improved forecast and accrual methods have been implemented, now enabling same month Steam revenue accrual.

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

According to IAS 12 when an entity has a history of recent losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

After the successful launches of *Conan Exiles* in 2017, profitable Q1 and Q2 results and positive outlook, 2017 profit is expected to be sufficient to recover the accumulated tax loss in Funcom Oslo AS. Since the criteria under IAS 12.35 has been met, the Company has recognized as of 31 December 2016 the accumulated tax loss of Funcom Oslo AS as deferred tax assets. The exact tax result for 2017 will be determined at year-end when preparing the financial results for 4Q17.

8 Long term receivables

Long term receivables mainly consists of deposits for real estate leases.

9 Liabilities

Long-term liabilities consist of a USD 3,347 thousand convertible bond, USD 50 thousand rental deposits for the sublet of office space, and USD 116 thousand rental incentives.

The convertible bond matures on 31 December 2018, with an interest rate of 3.5%, and a conversion price of USD 0.10 per share. In April 2017 USD 3,500 thousand (plus accrued interest) was converted into new shares. As of 30 June 2017, the remaining bonds have a carrying amount of USD 3,347 thousand and an actual balance due of USD 3,399 thousand. The convertible bond is the only outstanding interest-bearing debt.

Short-term loans and borrowings consist of USD 48 thousand rental incentives.

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.

An adjustment was recorded on the statement of cash flows as of 31 March 2017 by increasing Changes in working capital with an amount of USD 1,336 thousand, and by decreasing the Effect of exchange rate fluctuations with the same amount. This adjustment has no impact on any of the other statements. The above statement of cash flows are reported inclusive of the above mentioned adjustment.

11 Average number of shares

	Second quarter		Six months	
	2017	2016	2017	2016
Average number of shares (1'000)	287,197	139,594	270,292	115,901

12 Other comprehensive income

In accordance with IAS 21, the Company reported in 2Q17 under the 'Other comprehensive income' a foreign exchange gain amounting to USD 38 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 10,179 thousand at the end of 1Q17 to USD 14,123 thousand at the end of 2Q17.

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 *Conan Exiles*, *Anarchy Online*, *Secret World Legends* and *Age of Conan*
- Offline games – such as *The Park*, *Hide and Shriek*, *Dreamfall* and *The Longest Journey*

	Revenue from external customers January - June		Segment profit (loss) *) January - June	
	2017	2016	2017	2016
Online games	13,469	3,183	11,178	1,226
Offline games	278	320	276	266
Other activities	246	263	12	-27
Total	13,992	3,766	11,466	1,465
General and administrative expenses			-3,443	-1,614
Depreciation, amortization and impairment charges			-1,495	-900
Net financial items			-199	-735
Profit (loss) before tax (from continuing operations)			6,328	-1,785

	Revenue from external customers April-June		Segment profit (loss) *) April-June	
	2017	2016	2017	2016
Online games	2,847	1,379	1,984	468
Offline games	102	193	101	143
Other activities	123	146	5	-19
Total	3,072	1,718	2,090	592
General and administrative expenses			-1,083	-1,005
Depreciation, amortization and impairment charges			-763	24
Net financial items			-45	-633
Profit (loss) before tax (from continuing operations)			198	-1,022

*) 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.

*) In 2016, other activities referred to Funcom Games Canada subleasing activities. Since January 2017, Funcom NV has taken over the subleasing activities. Segment profit (loss) is measured as revenue earned less original rental expenses.

	Online games	Offline games
Segment assets as at 30 June 2016	4,896	
Segment assets as at 30 June 2017	7,379	

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

15 Subsequent events

Conan Exiles was released on Xbox One Game Preview on 16 August 2017 as planned, together with The Frozen North free expansion update on both Xbox and PC. On 21 August 2017 Funcom signed a co-publishing partnership with Koch media to publish and distribute the physical retail version of Conan Exiles for the full launch of the game on PC, Xbox One and Playstation 4 in Q1 2018. For both events see Funcom Q217 report and presentation for more information.

Directors' responsibility statement

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

The Consolidated Interim Financial Statements for the six months ended 30 June 2017 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 2017;
- 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
31 August 2017

The Management Board of Funcom N.V.

Rui Casais (Management Board member and CEO)
Christian Olsthoorn (Management Board member)