

2018 First Quarter Financial Report

The Funcom® Group
Funcom N.V. and subsidiaries

1 Highlights

- Conan Exiles launched successfully on 8 May 2018 and has sold in total more than 1.4 million units, including retail sell-in and not excluding refunds. It will soon be Funcom's best-selling game to date
- Mutant Year Zero: Road to Eden was announced and has received a lot of favourable interest. It will be launched in second half of 2018
- Publishing of a Conan game to be developed by industry veterans Petroglyph has been announced, to be launched in first half of 2019
- The equity increased by USD 21.5 m in the quarter driven by
 - The NOK 88.4 million Swedbank Robur private placement which closed successfully
 - The cash-less acquisition of rights to a major IP portfolio including Conan the Barbarian through 50% ownership of Heroic Signatures DA which closed successfully
 - The conversion into equity of USD 3.0 million (including accrued interest) of the convertible bond (remaining face value is USD 0.6 million)
- 1Q18 was EBITDA positive, despite focus on the 2Q18 Conan Exiles launch

2 Financials

- Revenues in 1Q18 amount to USD 2,677 thousand, as expected lower than USD 10,921 thousand in 1Q17, the quarter of the very successful Early Access launch of Conan Exiles. Conan Exiles was the largest contributor in 1Q18 in a quarter without significant launch or marketing related initiatives generating revenue. Secret World Legends revenue was stabilizing, and Age of Conan had positive growth due to the successful Saga of Zath server event.
- A positive 1Q18 Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) of USD 77 thousand was reached in a quarter without launches. 1Q17 EBITDA was 6,707 thousand. The cost level in 1Q18 was similar to 4Q17.
- Profit (loss) before tax for 1Q18 was USD -1,172 thousand vs USD 6,129 thousand in 1Q17. Significant investments into future launches have been made, primarily Conan Exiles that was launched on 8 May 2018, but also new content for Secret World Legends that was released on 4 April 2018, and ongoing work to prepare for Mutant launch in 2H18, Petroglyph in 1H19 and the game being developed in North Carolina. The initial work on the game in North Carolina and Petroglyph were fully expensed in line with company policy.
- The total equity increased from USD 10,179 thousand at the end of 1Q17 to USD 35,137 thousand at the end of 1Q18, primarily due to the successful private placement, IP rights acquisition and debt conversion.

- The cash position increased from USD 10,286 thousand at the end of 1Q17 to USD 16,533 thousand at the end of 1Q18 due to the private placement. The cash inflow during 1Q18 was USD 8,908 thousand.
- On 14 March 2018 it was announced that USD 2,829 thousand (plus accrued interest of USD 171 thousand) of the 10 per cent Senior Unsecured Convertible Bond Issue 2011/2014 (as amended from time to time) (the "Convertible Bond") was converted into equity. The remaining face value of the bond is USD 570 thousand.

3 Game highlights

3.1 Age of Conan and Secret World Legends:

- Age of Conan's "Saga of Zath" server ran from 24 January to 15 May and was successful in engaging players and increasing revenue
 - The Saga Server is a limited time server where players must start new characters and strive to reach specific milestones in order to earn rewards before the server event ended on 15 May.
- Secret World Legends received the "Dawn of the Morninglight" issue
 - The first story content to be added in over 2 years
 - Well received by the players
- More content and events are planned for SWL going forward

3.2 Conan Exiles

Status:

- Full launch on Conan Exiles on PC, Xbox One and PlayStation 4 on 8 May 2018, and successfully transferred from Early Access and Game Preview
- The game sold 1 million units, not excluding refunds, across all platforms between 31 January 2017 and the release on 8 May 2018
- In total the game has now sold in total more than 1.4 million units including retail sell-in and not excluding refunds, having already sold as many units as Age of Conan did in its first three years.
 - Conan Exiles will soon become Funcom's bestselling game of all time
- The game has continued to be profitable since its first week after Early Access launch 31 January 2017
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- The game has been well received by both players and press
 - Some negativity due to the lack of official servers to play on at launch, which was due to the large influx of old players on PC and a higher than expected ratio of players that wanted to play on official servers vs private servers
 - The quality of the game has greatly improved during the Early Access / Game Preview period and, while the game could have benefited from even more quality improvements, this was clearly a more stable and of higher quality launch than the previous launches of this game
 - The team continues to improve the quality of the game and listen to the community to provide the best possible experience to the players
- The game will be released for PlayStation 4 in Japan during Summer 2018 by Spike Chunsoft, both digitally and in retail stores
- Press and player reception of the game has been quite wide, fueled by the PR and Marketing campaign undertaken by the company

- The game entered into the top sellers lists on several platforms and territories, being the 3rd best-selling game on Steam during the launch week, and 2nd the week after.

Future:

- Conan Exiles will receive the following types of updates during the following months:
 - Bug fixes and “Quality of Life” updates
 - New features and functionality
 - DLC packs (paid downloadable content)
- New features and functionality will be free, with additional optional content to be packaged as DLC
- First DLC pack will be released during June

3.3 Mutant Year Zero: Road to Eden:

Reveal:

- Tactical adventure game revealed on 28 February
- Widespread pickup in the gaming press, CGI «went viral» with millions of views
- Unique setting, characters, and mix of strategy and adventure well received

First live demo:

- Live demo at GDC in San Francisco in March 2018
- Previews in several major publications, e.g PC Gamer, IGN, and GameSpot
- Feedback from press on release was very positive, first live gameplay demo saw undivided positive response from the press

Coming activities:

- E3 is next major marketing beat, first ever hands-on demo to share it with press
- Further PR and marketing activities will be executed leading up to launch
- On track for 2H18 launch on PC, Xbox, and PS4

3.4 Petroglyph project:

- Petroglyph is a well-known developer of Real Time Strategy games
- Funcom is fully funding a new project with Petroglyph utilizing the Conan the Barbarian IP
- The game is planned to launch on PC during the first half of 2019
- More information on the game will be made available closer to its launch

3.5 Future internal games:

Two new projects are in early concept stages:

- In Funcom Oslo:
 - New game concept using the “Conan the Barbarian” IP
 - Pre-production pushed to H2 2018
- In Funcom North Carolina:
 - New major project was greenlit and entered pre-production phase in March 2018

- The Team is currently hiring with most key positions filled
- Full production scheduled to start in late Q2 or Q3 2018 depending on staffing speed
- The game will be a Cooperative online shooter game with a Premium business model using an IP from Heroic Signatures that isn't Conan
- The company does not expect to reveal any information about the new project in 2018

4 Risk factors:

- For information regarding risk factors for the Company and its games, please refer to note 27 in the 2017 Annual Report
- For evaluations of the risks related to Funcom games and activities, Funcom encourages investors to seek information about the industry in general and Funcom specifically from analyst reports, industry reports, game reviews etc
- Several different financial scenarios should be evaluated when analysing the potential of any existing or future games. The financial performance of new games and the development of games' performance over time is uncertain

5 Outlook:

- The financial performance outlook of the Company is positive
- With USD 16.6 million in available cash at the end of 1Q18 and only USD 0.6 million in interest bearing debt the company has a strong financial position, significantly improved compared to recent years
- Key factors of the outlook
 - Full launch of Conan Exiles on PlayStation 4, PC and Xbox One on 8 May 2018 and the continued sales from the game and its upcoming DLC packs
 - Launch of *Mutant Year Zero: Road to Eden* in 2H 2018 on PC, PlayStation 4 and Xbox One
 - Launch of the Petroglyph developed Conan game in 1H 2019 on PC
- The other games are expected to slowly decline over time due to the ageing of the games. However, Funcom will work to launch events and content releases to spur periods of growth, as successfully executed with the Saga of Zath server for Age of Conan.
- In line with the communicated strategy Funcom plans to invest in the above mentioned and additional co-development and publishing games during 2018 and onwards

Badhoevedorp, The Netherlands, 24 May 2018

The Management Board of Funcom N.V.

- This report is also available at <http://www.newsweb.no>
- 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 2017 note 27.

- For more information about Funcom, its games and its organization, please see www.funcom.com

* "Funcom", "*Secret World Legends*" and "*Anarchy Online*" are registered trademarks of Funcom Oslo AS.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS					
(Figures in TUSD)	First Quarter		Accumulated		Full Year
	2018	2017	2018	2017	
Revenue	2 677	10 921	2 677	10 921	23 162
Operating expenses	-2 600	-4 214	-2 600	-4 214	-13 225
Earnings Before Interest, Tax, Depreciation and Amortization	77	6 707	77	6 707	9 937
Depreciation, amortization and impairment charges	-1 215	-732	-1 215	-732	-3 298
Operating result ("EBIT") from continuing operations	-1 138	5 975	-1 138	5 975	6 640
Net financial items	-34	155	-34	155	89
Profit (loss) before income taxes from continuing operations	-1 172	6 129	-1 172	6 129	6 729
Income taxes					-1 773
Profit (loss) from continuing operations	-1 172	6 129	-1 172	6 129	4 957
Profit from discontinued operation, net of tax				0	0
Profit (loss) for the period	-1 172	6 129	-1 172	6 129	4 957
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-1 172	6 129	-1 172	6 129	4 957
Earnings per share basic (USD)	-0,02	0,12	-0,02	0,12	0,07
Earnings per share fully diluted (USD)	-0,02	0,12	-0,02	0,12	0,07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME					
Profit (loss) for the period	-1 172	6 129	-1 172	6 129	4 957
Foreign exchange translation difference	432	-135	432	-135	135
Total comprehensive income for the period	-740	5 994	-740	5 994	5 092

CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
(Figures in TUSD)	31 March		31 Dec.	
	2018	2017	2017	
ASSETS				
<u>Non-current assets</u>				
Deferred tax assets		1 069		
Intangible assets	12 515	7 102	10 249	
Tangible fixed assets	38	3	37	
Investments accounted for using the equity method	7 723			
Long term receivables	531	143	567	
Total non-current assets	20 806	8 317	10 852	
<u>Current assets</u>				
Trade receivables	986	1 151	1 559	
Prepayments and other receivables	661	346	269	
Cash and cash equivalents	16 533	10 286	7 731	
Total current assets	18 179	11 783	9 559	
Total assets	38 985	20 099	20 411	
EQUITY AND LIABILITIES				
<u>Equity</u>				
Share capital	17 754	12 006	13 525	
Reserves	186 762	165 206	168 359	
Retained earnings	-169 379	-167 034	-168 206	
Total equity	35 137	10 179	13 678	
<u>Liabilities</u>				
Deferred tax liabilities	707		671	
Long-term liabilities	91	7 027	91	
Deferred income	435	546	478	
Short-term loans and borrowings	630	36	3 411	
Other short term liabilities	1 984	2 312	2 082	
Total liabilities	3 848	9 921	6 733	
Total equity and liabilities	38 985	20 099	20 411	

CONSOLIDATED STATEMENT OF CASH FLOWS					
	First Quarter		Period ended 31 March		Full Year
<i>(Figures in TUSD)</i>	2018	2017	2018	2017	2017
Cash flow from operating activities					
Profit (loss) before income tax	-1 172	6 129	-1 172	6 129	6 729
Adjustments for:					
Depreciation, amortization and impairment	1 215	732	1 215	732	3 298
Share-based payments	325	100	325	100	750
Changes in working capital	244	-724	244	-724	-380
Net cash from operating activities	611	6 237	611	6 237	10 397
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-2 962	-1 214	-2 962	-1 214	-6 610
Investment in equity-accounted entities	-122		-122		
Net cash from investing activities	-3 084	-1 214	-3 084	-1 214	-6 610
Cash flow from financing activities					
Net proceeds from issue of share capital	11 381	311	11 381	311	470
Proceeds / repayments from (of) borrowings and leases					
Net cash from financing activities	11 381	311	11 381	311	470
Change in cash and cash equivalents	8 908	5 334	8 908	5 334	4 257
Cash and cash equivalents, beginning of period	7 731	3 710	7 731	3 710	3 709
Cash and cash equivalents, end of period before exchange effect	16 639	9 044	16 639	9 044	7 966
Effect of exchange rate fluctuations	-107	1 243	-107	1 243	-234
Cash and cash equivalents, end of period after exchange effect	16 533	10 286	16 533	10 286	7 731

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY			
	31 March		Full Year
<i>(Figures in TUSD)</i>	2018	2017	2017
Opening balance	13 678	3 773	3 773
Total comprehensive income for the period	-740	5 994	5 092
Equity issues	21 874	155	3 906
Exercise of warrants		156	157
Share-based payments	325	100	750
Closing balance	35 137	10 179	13 678

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, publish and carry on business in computer and console games in the broadest sense. The unaudited interim condensed consolidated financial statements for the Company for the three months ended 31 March 2018 were approved for issue by the Supervisory Board on 24 May 2018.

2 Basis for preparation and selected significant accounting policies

Based on successful recent launches, future pipeline and additional funding in 2018 the company's financial situation is strong. Based on this the going concern assumption is justified and consequently the unaudited interim condensed consolidated financial statements of the Company for the three months ended 31 March 2018 have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.

These unaudited statements have been prepared in accordance with IAS 34, which means that they 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 2017 Annual Report.

As of 1 January 2018, 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 significant impact on the amounts reported in this interim report but may affect the accounting for future transactions or arrangements. The impact of the financial statements of standards issued, but with an adoption date on 1 January 2019 or later will be discussed in the annual report.

The revised accounting principles due to the adoption of IFRS 9, 15 and 16 are described in note 2 in Funcom's 2017 Annual Report. IFRS 9 and 15 are applied from 1 January 2018, whereas IFRS 16 will be applied from 1 January 2019. With respect to IFRS 9 Funcom has taken advantage of the exemption allowing it not to restate comparative information of prior periods with respect to classification, measurement and impairment. Funcom has concluded that the application of IFRS 9's impairment requirements in 1 January 2018 will not result in an increase in its impairment provision. For IFRS 15 the cumulative catch up method is used, allowing 2017 financials not being restated with new principles. As the effect of the minor adjustment to Funcom's revenue policy, as described in the 2017 Annual report is insignificant, it is not illustrated how the 2018 numbers would have been based on the old accounting principles and no adjustment to opening retained earnings as at 1 January 2018 has been made. An adjustment of USD 64 thousand has been made to retained earnings because of changed business model and subscription options connected with the relaunch of The Secret World to Secret World Legends. Disclosures of disaggregated revenue are presented in note 15.

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. Both internally and externally developed games that are published by Funcom are capitalized. 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.

2.4 Deferred revenues

Per copy sales of new games, whether delivered via Internet (game download) or packaged goods (boxes) are recognized in the Statement of Comprehensive Income as revenue at the time of sale, given that sufficient visibility has been secured. Sales through third-party distribution platforms is also recognized as underlying sales occur. Revenues from subscriptions are recognized over the subscription period, normally 1-12 months, revenues from sales of in-game items / micro-transactions are recognized at the time of sale. Revenue from virtual currency is recognized at the estimated time of spending rather than at the time of purchase. A provision for expected refunds is charged against revenue to the extent Funcom has an obligation for such arrangements.

2.5 Investments in equity-accounted entities

Joint ventures are those entities over which the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in associates and jointly controlled entities are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Based on IFRS 11, Funcom will recognize its interest in Heroic Signatures DA as investment and shall account for that investment using the equity method in accordance with IAS 28. Therefore, Funcom will recognize its initial investment in Heroic Signatures DA at cost. The carrying amount is increased or decreased to recognize its share of the profit or loss of Heroic Signatures DA after the date of acquisition. Transactions between Funcom and Heroic Signatures are eliminated, which means Heroic Signatures revenue from royalty paid by Funcom, e.g. royalty for the games Conan Exiles and Age of Conan, is eliminated with group operating expenses. The investment in equity-accounted entities of USD -122 thousand illustrated in the cash flow statement constitute transaction fees.

3 Operating revenues

The revenues mainly consist of sales of game software, subscriptions, in-game items and royalties.

4 Operating expenses

Personnel cost, external development cost, marketing, office rent and games operating cost are main elements of the operating expenses.

5 Depreciation and amortization

The Company amortizes investment in the development of technology and game assets on a systematic basis over their useful life. MMO games (Age of Conan and Secret World Legends) and technology can have an amortization period of typically up to five years, whereas other games typically have an amortization period of two years or below. 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. The increase of intangible assets in 1Q18 was USD 2,267 thousand. Of this USD 507 thousand is a translation effect, reflecting that the USD value of the intangible assets decreases when the USD / NOK foreign exchange rate decreases, as the intangible assets are held by Funcom Oslo in NOK. This means the underlying net addition of intangible assets in 1Q18 is USD 1,759 thousand.

6 Net financial items

Net financial items mainly consist of interest earned, exchange rate differences, and interest incurred on loans.

7 Taxes

A tax liability of USD 707 thousand is recorded on the balance sheet, which is the result of the tax assets recognized on the balance sheet in 2016 being eliminated by changes in temporary tax differences from 2017, primarily due to Conan Exiles. There were no payable tax in Norway or in the Netherlands for 2017. Due to the uncertainty from the below, the tax effects of 2018 interim period has not been calculated.

The tax assessments received by Funcom N.V. with respect to the financial years 2014 and 2015 report nil taxable amounts for those years, and no remaining carry forward losses as of the end of 2015 after corrections and settlement of the carry forward losses available as of the end of 2013 (USD 40,017 thousand). Funcom is assessing the possibility to challenge this outcome. The tax assessment received by Funcom N.V. with respect to the financial year 2016 reports nil taxable amounts for this year and carry forward losses amounting to USD 1,835 thousand as of the end of 2016. The Company has not recognized deferred tax assets for any potential carry forward loss of Funcom N.V.

8 Long term receivables

Long term receivables consist of deposits for real estate leases.

9 Cash

Cash and cash equivalents are USD 16,533 thousand. Of these USD 111 thousand are restricted. Compared to the 4Q17 report USD 392 thousand was reclassified from restricted cash to long term receivables.

10 Liabilities

Long-term liabilities consist of long term lease liabilities. Short-term loans and borrowings is dominated by the USD 546 thousand convertible bond.

The convertible bond matures on 31 December 2018 with an interest rate of 3.5%, and a conversion price of USD 0.518 per share. In March 2018 USD 2,828,785 (plus accrued interest of USD 171,214.91) was converted into new shares. As of 31 March 2018, the remaining bonds have a carrying amount of USD 546 thousand and a face value of USD 570 thousand. The convertible bond is the only outstanding interest-bearing debt.

11 Cash flows

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

12 Average number of shares

	First quarter		Year to date	
	2018	2017	2018	2017
Average number of shares (1'000)	66,123	50,640	66,123	50,640

On 1 February 2018 a 5:1 reverse split was conducted. In the above, for comparison also the specified number of shares for 2017 has been adjusted for the reverse split.

13 Other comprehensive income

In accordance with IAS 21, the Company reported in 1Q18 under the 'Other comprehensive income' a foreign exchange profit amounting to USD 432 thousand mainly related to the reconciliation of intercompany balances in foreign currencies and to the translation of foreign operations into the reporting currency.

14 Equity

The equity of the Company increased from USD 13,678 thousand at the end of 4Q17 to USD 35,137 thousand at the end of 1Q18, primarily due to the following three events.

In February 2018 Funcom executed a private placement of 6,800,000 new shares at a subscription price of NOK 13 per share. The total gross proceeds to Funcom in the private placement was NOK 88.4 million. The transaction increased the equity of the Company with USD 7,366 thousand after USD 127 thousand in transaction fees.

On 8 February 2018 the acquisition of 50% of "Heroic Signatures DA" in exchange for issuing 4,460,000 new shares, each at a subscription price of NOK 13, was completed. The transaction increased the equity with USD 7,493 thousand.

In March 2018, USD 3,000 thousand of Funcom convertible bond (including accrued interest) was converted into 5,413,127 Funcom shares at the price of USD 0.518 per share.

15 Segments

IFRS 8 requires operating segments to be identified based on internal reports about components of the Group that are regularly reviewed by the chief operating decision makers to allocate resources to the segment and to assess its performance. PC and console are key segments for Funcom with different growth, separate customer groups and payment terms. The reportable operating segments of the group are defined as:

- PC
- Console: PS4 and Xbox.
- Other: predominantly rental revenue and IP revenue

Segment information

	Revenue from external customers January - March		Segment profit (loss) *) January - March	
	2018	2017	2018	2017
PC	2 056	10 768	1 431	7 887
Console	475	32	276	32
Other activities	146	121	18	7
Total	2 677	10 921	1 725	7 926
General and administrative expenses			-1 648	-910
Depreciation, amortization and impairment charges			-1 215	-732
Net financial items			-34	-155
Profit (loss) before tax (from continuing operations)			-1 172	6 129

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

	PC	Console
Segment assets as at 31 March 2017	5 320	1 442
Segment assets as at 31 March 2018	8 248	4 002

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

16 Subsequent events

On 20 April 2018 the annual general shareholder meeting was convened to take place on 1 June 2018. It was proposed that Andreas Arntzen replace Magnus Slåttekjær Grøneng on the Supervisory Board. It was also informed about changes to the stock option program for employees, management and supervisory board directors that will impact financials going forward, particularly 2Q18.

On 30 April 2018 it was announced that Funcom had entered into a partnership where Petroglyph Games Inc will develop a game to be published by Funcom. The game is based on the Conan the Barbarian IP and is planned to launch for PC during the first half of 2019. This is in accordance with the Company's strategy of publishing both internally and externally developed titles in order to generate more revenue streams and reduce the risk profile of the Company.

Conan Exiles launched successfully on 8 May 2018 and has sold in total more than 1.4 million units.