

2019 Third Quarter Financial Report

The Funcom® Group
Funcom SE and subsidiaries

Words from the CEO

“We’re very happy to welcome Tencent as our largest shareholder, a sign of trust and recognition that we are humbled by and excited about. We thank KGJ for all their support over the years and we are glad to see their ownership be transferred to such a knowledgeable investor as Tencent.

The third quarter of 2019 was a low-key period in terms of releases for the company, with several small activities happening on several games. We released a game for the first time on Nintendo Switch – Mutant Year Zero: Road to Eden – in addition we released a DLC for the game and had it on the Epic Games Store as a free game of the week. We also continued delivering on the DLCs for Conan Exiles, with “Blood and Sand” during the quarter and “Debaucheries of Derketo” in October. Moons of Madness had its Steam release in time for Halloween and has been positively received by players and press. The console release for the game is scheduled for January for Xbox One and PlayStation 4.

We continue the investments into our games pipeline and particularly into our internally developed games Conan Exiles, the DUNE open world survival game and the Mutant Chronicles online shooter.

We’re excited about everything we have in the pipeline and strengthened by the support shown by Tencent. We’re steadily growing our teams, knowledge and expertise which helps us pave the way for future successes.”

*Rui Casais,
Chief Executive Officer*

1. Highlights

- *Conan Exiles* continues to perform well on the games as a service model, with one DLC in 3Q19, 2 DLCs in 4Q19 and a major update planned for 1H 2020
- On 31 July, Funcom made its first release on the Nintendo Switch platform with the critically acclaimed *Mutant Year Zero: Road to Eden*. A new DLC was also released on all platforms and retail
- On 22 October, *Moons of Madness* was released on PC, positively received by gamers and press. A Nintendo Switch version of *The Park*, initially launched in 2015, was released on the same day
- The Funcom Oslo studio continues to focus on the Multiplayer Open World games, further develop *Conan Exiles* and increase the size of the DUNE game team
- The pipeline of projects in development continues to be strong, with two internally developed major multiplayer titles, two revealed publishing titles not yet fully launched, and 6 other active projects
- Tencent, the world's largest online gaming company, announced in September 2019 the acquisition of 29% of the Shares in Funcom SE at 15.75 NOK / share from KGJ Capital AS, becoming the largest shareholder in Funcom

2. Financials

- 3Q19 revenue was USD 5 353 thousand, mainly driven by *Conan Exiles* and *Mutant Year Zero: Road to Eden*. 3Q18 revenue was USD 7 534 thousand driven by the very successful *Conan Exiles* Japan launch and a strong effect of the *Conan Exiles* full game launch in 2Q18. *Moons of Madness* was launched after 3Q, on 22 October
- Despite 3Q19 being a quarter without new game releases the EBITDA was USD 2 148 thousand, and the EBITDA margin was 40% for the quarter and 49% for the last 12 months. 3Q18 EBITDA was USD 4 642 thousand, again mainly driven by the launch effect of *Conan Exiles*
- EBIT for 3Q19 amounted to USD -357 thousand. mainly due to significant amortization expenses recorded during the quarter. 3Q18 EBIT was USD 2 883 thousand
- The equity increased 1% to USD 45 009 thousand, versus USD 44 625 thousand in 3Q18
- The cash position was USD 16 321 thousand, the expected decline from USD 20 923 thousand in 3Q18 is mainly caused by significant investments in game development, underperformance of *Conan Unconquered* and currency effects. The strengthening of the USD reduces the reported cash balance as it is reported in USD while part of the cash balance is held in NOK
- Cash flow from operating activities for 3Q19 was USD 2 015 thousand, versus USD 6 353 thousand in 3Q18. USD 2 059 thousand of the decline is due to more favourable working capital movements in 3Q18 following the *Conan Exiles* launch

3. Game activities and pipeline

a) Game activities (i)

GAME ACTIVITIES (1)

SECRET WORLD LEGENDS

GAMES: Anarchy Online, Age of Conan, Secret World Legends
 GENRE: MMO/RPG
 BUSINESS MODEL: Free-to-Play, Game as a Service
 DEVELOPER: Funcom
 PLATFORMS: PC
 Q3 ACTIVITIES: Community events

CONAN UNCONQUERED

GENRE: Survival Strategy
 IP: Conan The Barbarian
 BUSINESS MODEL: Premium
 DEVELOPER: Petroglyph
 PLATFORMS: PC
 Q3 ACTIVITY: Free update

THE PARK

GENRE: Horror adventure
 BUSINESS MODEL: Premium
 DEVELOPER: Funcom
 PLATFORMS: PC, XBOXONE, PS4, Switch
 AFTER Q3 ACTIVITY: Switch launch

MUTANT YEAR ZERO: SEED OF EVIL

GENRE: Tactical Adventure
 IP: Mutant: Year Zero
 BUSINESS MODEL: Premium + DLC
 DEVELOPER: The Bearded Ladies
 PLATFORMS: PC, XBOXONE, PS4, Switch
 Q3 ACTIVITIES: DLC, Switch and retail release (30 July)

b) Game activities (ii) – Conan Exiles

GAME ACTIVITIES (II) – CONAN EXILES

CONAN EXILES
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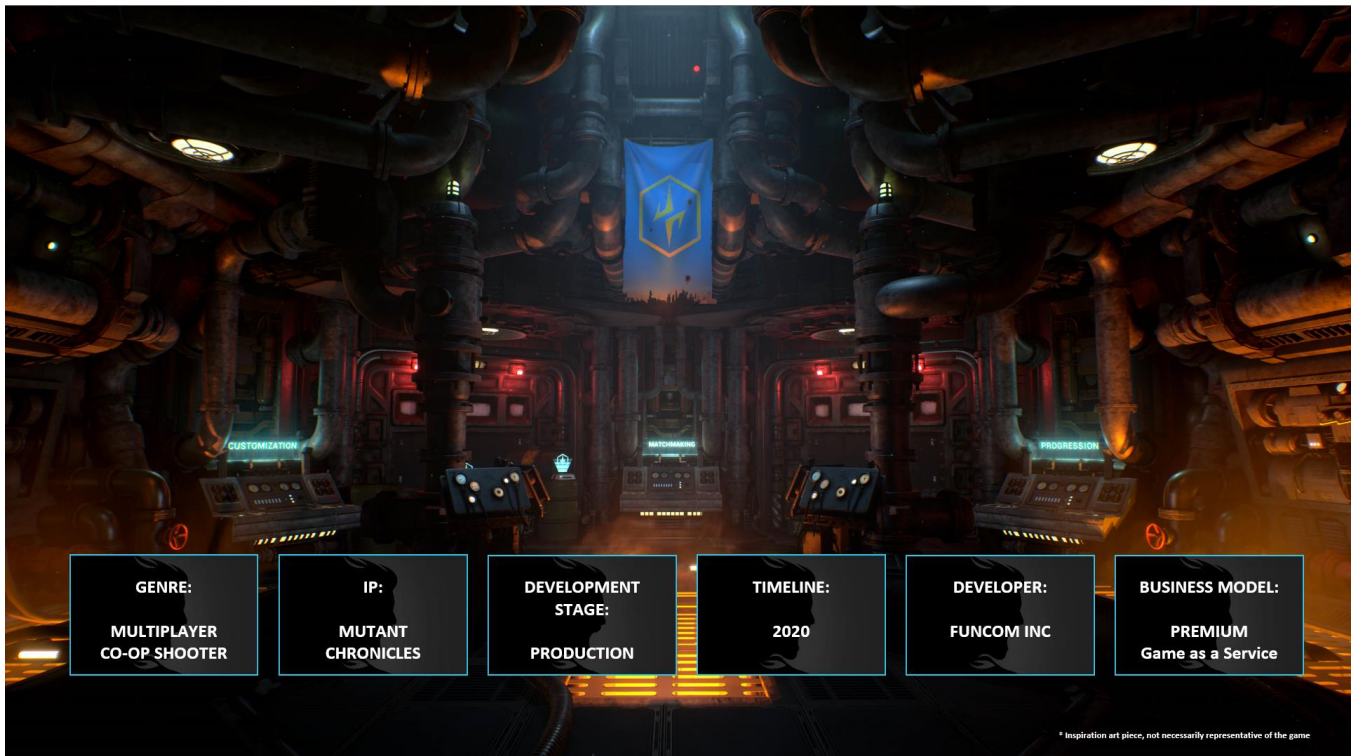
GENRE: OPEN WORLD MULTIPLAYER	IP: CONAN THE BARBARIAN	Q3 ACTIVITIES: Blood & Sand DLC Steam Free Weekend	ACTIVITIES AFTER Q3: DLC – Oct DLC, mounts, SPW – Dec Larger update 1H 2020	DEVELOPER: FUNCOM OSLO	BUSINESS MODEL: PREMIUM + DLC
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 *Illustrations and photos are merely representative of the game.

c) New game – DUNE open-world



d) New game – Co-op shooter



e) Publishing and other games

The slide features the Flarecom logo in the top left corner. The main title is "UPCOMING PUBLISHING GAME RELEASES". It is divided into two columns: "REVEALED GAMES" and "NOT YET REVEALED GAMES".

REVEALED GAMES

- CONAN OVER BLOOD**
GENRE: Single & Multiplayer Roguelike
PLATFORMS: PC - XBOX - PS4 - Switch
RELEASE: Q1 2020
STATUS: In Production
Developer: Mighty Kingdom
- MONS or MADNESS**
GENRE: Single player
Format/Genre: Action/Adventure
PLATFORMS: PC - XBOX ONE - PS4
RELEASE: PS4 - XBOX, 21 Jan '20
STATUS: released on PC
Developer: Madhouse

NOT YET REVEALED GAMES

- GAMES FARM**
Developer: Games Farm
Status: TOP SECRET
- OUTSIDERS**
Developer: Outsiders
Status: TOP SECRET

10 active projects: 5 new + 5 existing game projects

4. Risk factors

- For information regarding risk factors for the Company and its games, please refer to note 26 in the 2018 Annual Report. The report can be downloaded from the company website at <https://investors.funcom.com/>. For evaluation 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 long-term outlook of the Company is positive, with ongoing significant investments into both internal and published games
- Key factors of the outlook
 - The continued sales of *Conan Exiles* and reception of the *Riders of Hyboria* DLC and mounts in December, and major update in 1H 2020
 - Continued sales of *Moons of Madness* on PC and launch on Xbox One and PlayStation 4 on 21 January 2020
 - Launch of *Conan Chop Chop* in 1Q 2020 on PC, Xbox One, Playstation 4 and Nintendo Switch
 - Launch of a *DUNE* Multiplayer Open World game
 - Launch of Funcom North Carolina's multiplayer co-op shooter game
 - Development and release of additional publishing projects and performance of the growing portfolio of released games
- Revenue and profitability should be expected to vary from quarter to quarter, depending on launch activity of new games and downloadable content, discounts and other events. The Company's strategy of releasing both internally and externally developed games, allowing multiple releases each year, is designed to increase diversification and reduce risk
- In line with the communicated strategy Funcom is investing in the above mentioned and additional publishing games going forward

Badhoevedorp, The Netherlands, 11 November 2019

The Management Board of Funcom SE

- This report is also available at <https://newsweb.oslobors.no>
- This report contains forward-looking statements. These statements are based on current estimates and projections of Funcom's management and currently available information. 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 risks discussed in Funcom's Annual Report 2018 note 26
- 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*

FUNCOM SE - THIRD QUARTER FINANCIALS OF 2019
PRELIMINARY, CONDENSED, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS (unaudited)					
	Third Quarter		Period ended 30 September		Full Year
<i>(Figures in TUSD)</i>	2019	2018	2019	2018	2018
Revenue	5 353	7 534	20 041	25 422	33 776
Operating expenses	-3 206	-2 892	-10 978	-12 434	-16 086
EBITDA	2 148	4 642	9 063	12 988	17 690
Depreciation, amortization and impairment charges	-2 505	-1 759	-8 700	-4 247	-7 523
Operating result ("EBIT")	-357	2 883	364	8 740	10 166
Net financial items	137	-199	76	-1 423	-1 926
Profit (loss) before income taxes	-221	2 684	439	7 317	8 240
Income taxes	-35	-439	-415	-1 958	-1 622
Profit (loss) for the period	-256	2 246	25	5 359	6 618
Attributable to non-controlling interests	-12	-	-40	-	-
Attributable to shareholders of Funcom SE	-244	2 246	65	5 359	6 618
Earnings per share basic (USD)	0.00	0.03	0.00	0.07	0.09
Earnings per share fully diluted (USD)	0.00	0.03	0.00	0.07	0.08

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)					
	Third Quarter		Period ended 30 September		Full Year
<i>(Figures in TUSD)</i>	2019	2018	2019	2018	2018
Profit (loss) for the period	-256	2 246	25	5 359	6 618
Foreign exchange translation difference	-2 374	-20	-1 520	-78	-1 508
Total comprehensive income for the period	-2 630	2 225	-1 495	5 281	5 110
Attributable to non-controlling interests	-12	-	-40	-	-
Attributable to shareholders of Funcom SE	-2 618	2 225	-1 455	5 281	5 110

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)			
(Figures in TUSD)	30 September		31 Dec
	2019	2018	2018
ASSETS			
<u>Non-current assets</u>			
Intangible assets and goodwill	30 983	18 099	24 711
Tangible fixed assets	147	34	155
Right-of-use assets	4 000	-	-
Investments accounted for using the equity method	-	7 300	-
Non-current prepayments and receivables	731	512	489
Total non-current assets	35 859	25 945	25 354
<u>Current assets</u>			
Trade receivables	2 164	3 444	4 797
Prepayments and other receivables	1 467	963	1 269
Cash and cash equivalents	16 321	20 923	19 902
Total current assets	19 952	25 330	25 968
Total assets	55 811	51 275	51 322
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital	18 287	17 932	18 224
Reserves	188 230	189 540	188 539
Retained earnings	-161 532	-162 847	-161 589
Non-controlling interest	24	-	-
Total equity	45 009	44 625	45 175
<u>Non-current liabilities</u>			
Deferred tax liabilities	2 206	2 524	2 086
Non-current lease liabilities	3 018	-	-
Other non-current liabilities	-	132	92
Total non-current liabilities	5 224	2 656	2 178
<u>Current liabilities</u>			
Lease liabilities, Short-term	1 590	-	-
Contract liabilities	1 030	286	222
Short-term loans and borrowings	-	607	-
Trade payables	787	842	1 200
Other short-term liabilities	2 170	2 259	2 547
Total current liabilities	5 578	3 994	3 969
Total equity and liabilities	55 811	51 275	51 322

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)					
	Third Quarter		Period ended 30 September		Full Year
(Figures in TUSD)	2019	2018	2019	2018	2018
Profit (loss) before income tax	-221	2 684	439	7 317	8 240
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, amortization and impairment	2 505	1 759	8 700	4 247	7 523
Share-based payments	-	-113	920	2 903	2 903
Interest income/expense	2	-	-47	-	-49
Effect of exchange rate fluctuation	-140	153	26	1 318	1 322
Changes in Working capital	-164	1 895	2 677	-1 476	-2 720
Cash generated from operations	1 984	6 378	12 715	14 309	17 219
Interest received	44	-	165	-	49
Income taxes paid	-13	-26	-192	-72	-71
Net cash flow from operating activities (A)	2 015	6 353	12 688	14 236	17 196
Purchase of equipment and investment in intangible assets	-5 321	-3 646	-15 475	-12 228	-16 585
Acquisition of subsidiary, net of cash acquired	10	-	-74	-	-
Investment in equity-accounted entities	-	-100	-	-221	-
Net cash flow from investing activities (B)	-5 311	-3 745	-15 549	-12 449	-16 585
Net proceeds from issue of share capital	-	175	182	12 269	12 374
Repayment of lease liabilities	-310	-	-863	-	-
Interest on lease liabilities	-47	-	-118	-	-
Lease payments received from finance leases	107	-	330	-	-
Net cash flow from financing activities (C)	-249	175	-469	12 269	12 374
Net cash flow, before exchange rate fluctuations (A+B+C)	-3 545	2 782	-3 330	14 057	12 985
Effect of exchange rate fluctuations	-406	-110	-251	-865	-814
Changes in Cash and cash equivalents	-3 951	2 672	-3 581	13 192	12 171
Cash and cash equivalents, beginning of period	20 272	18 250	19 902	7 731	7 731
Changes in Cash and cash equivalents	-3 951	2 672	-3 581	13 192	12 171
Cash and cash equivalents, end of period	16 321	20 923	16 321	20 923	19 902

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)								
	Share capital	Share premium	Equity-settled employee benefits reserve	Trans-lation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total Equity
<i>In thousands of US dollars</i>								
Equity as at January 1, 2018:	13 525	165 028	8 936	-5 604	-168 206	13 678	-	13 678
Profit or loss for the period					5 359	5 359		5 359
Other comprehensive income the period				-78			-78	-78
Total comprehensive income for the period				-78	5 359	5 281		5 281
Share-based payments expense			2 903			2 903		2 903
Exercise of options	178	710				889		889
Issue of new shares	2 803	16 199				19 001		19 001
Convertible loan to new shares	1 426	1 574				3 000		3 000
Transaction costs related to increase in equity		-127					-127	-127
Equity as at September 30, 2018:	17 932	183 384	11 839	-5 683	-162 847	44 625		44 625
Profit or loss for the period					1 258	1 258		1 258
Other comprehensive income for the period				-1 429			-1 429	-1 429
Total comprehensive income for the period	-	-	-	-1 429	1 258	-171		-171
Share-based payments expense								
Exercise of options	18	86				104		104
Convertible loan to new shares	274	342				616		616
Equity as at December 31, 2018:	18 224	183 812	11 839	-7 112	161 589	45 175		45 175
Equity as at January 1, 2019:	18 224	183 812	11 839	-7 112	-161 589	45 175	-	45 175
Profit or loss for the period					65	65	-40	25
Other comprehensive income for the period				-1 520			-1 520	-1 520
Total comprehensive income for the period	-	-	-	-1 520	65	-1 455	-40	-1 495
IFRS 16 adjustment to opening balance							-9	-9
Share-based payments expense			920			920		920
Exercise of options	39	143				182		182
Issue of new shares	23	147				170		170
Acquisition of non-controlling interests							65	65
Equity as at September 30, 2019:	18 287	184 103	12 759	-8 632	-161 532	44 985	24	45 009

NOTES TO THE INTERIM REPORT

1. Corporate information

Funcom SE is a limited company registered in The Netherlands, and the shares are publicly traded on the Oslo Stock exchange under the ticker "FUNCOM". On 17 May 2019 the General Meeting approved the conversion of the legal form of Funcom N.V. to Funcom SE, a "societas europaea" company. 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 year to date at 30 September 2019 were approved for issue by the Supervisory Board on 11 November 2019.

2. Basis for preparation and selected significant accounting policies

Based on a strong cash balance, recent launches, future pipeline, strong owners and access to external funding in the financial markets 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 year to date 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 2018 Annual Report.

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 SE and companies in which Funcom SE 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. The intellectual property rights acquired by Heroic Signatures DA are classified as having indefinite useful life, which means they are not amortized unless the annual impairment test implies there is a reason to do so.

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 have an amortization period of up to five years, whereas other games have an amortization period of two years or below. Externally developed publishing games have an amortization period of 18 months. The company applies the diminishing balance amortization method, also called accelerated amortization method, that reflects the pattern of consumption of the future economic benefits. Typically, a high share of the

amortization is applied to the time period of the release, diminishing over time. If that pattern cannot be determined reliably, the company uses the straight-line method.

2.3 Equity

Transaction costs relating to equity transactions are recognized directly in equity after deducting tax.

2.4 Joint operation

While a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, a joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The accounting treatment of a joint operation is different than that of a joint venture.

A joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

When a joint operation does not constitute a business, the acquirer identifies and recognises the individual identifiable assets acquired and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill. Other costs related to the transaction can be capitalized.

On 8 February 2018, Funcom completed a transaction to acquire 50% interest of Heroic Signatures DA. Heroic Signatures DA (Delt Ansvar) is a general partnership registered in Norway. Funcom's interest in Heroic Signatures DA is accounted as a joint operation. Heroic Signatures DA revenue originating from Funcom royalty fees are eliminated with Funcom royalty cost and only Heroic Signatures DA third-party revenue is included in Funcom's consolidated revenue. The asset value of Heroic Signatures DA is shown under intangible assets on the balance sheet. Heroic Signatures DA was booked as a joint venture until 4Q18 when the booking was changed to a joint operation, so for quarters before that the asset value is shown as "investments accounted for using the equity method".

2.5 Non-controlling interest

A non-controlling interest (NCI), also known as minority interest, is the portion of equity ownership in a subsidiary not attributable to the parent company, who has a controlling interest (greater than 50% but less than 100%) and consolidates the subsidiary's financial results with its own. Non-controlling interest are measured by using the proportionate share of the recognized net assets.

2.6 Goodwill

Goodwill arises on acquisition of subsidiaries and associates. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition is recognized immediately in the Statement of Comprehensive Income.

Goodwill is measured at cost less any accumulated impairment losses. In respect of associates, goodwill is included in the carrying amount of the investment in the associate.

2.7 Leases

On 01.01.2019 the Group applied the new standard of accounting of leases, IFRS 16. The new standard replaced IAS 17 Leases, used in 2018.

Under IFRS 16 lease agreements are recognized in the balance sheet, and the right-to-use asset and lease liability are recognized in the financial statements. The right-to-use asset will be depreciated in profit or loss over the lease term. Lease payments are recognized as a reduction of the lease liability. For each period the Group will recognize an interest expense on the lease liability. Under IAS 17, used in 2018, office rent was expensed as operating expenses directly in profit or loss.

There are two exceptions: Leases with the lease term of 12 months or less with no purchase option (applied to the whole class of assets), and leases where underlying asset has a low value when new (applied on one-by-one basis). These leases are expensed directly in profit or loss.

2.8 Contract liabilities

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. Revenues from season passes or bundles are accrued based on the underlying DLC releases included in the bundle, distributed based on the value that each DLC represents. Revenue from subscription services, where Funcom is paid by an external service provider to include a game in a subscription offering, is recognized over the period of the relevant offering. The part of the sale not recognized as revenue in the current period, will be recognized in the future upon fulfilment of a performance obligation, and is recognized on the balance sheet under contract liabilities.

3. Intangible assets and goodwill

<i>In thousands of US dollars</i>	July - September	
	3Q-19	3Q-18
Depreciations, intangible assets	-2 448	-1 667
Additions, intangible assets	5 467	3 839
Net addition of intangible assets	3 019	2 172
FX translation effect	-1 923	-267
Increase of intangible assets	1 096	1 905
Intangible assets, beginning of period	29 554	16 194
Reclassification of Goodwill (*)	333	-
Increase of intangible assets	1 096	1 905
Intangible assets, end of period	30 983	18 099

(*) In 2Q19, Goodwill was reported on a separate line. Starting 3Q19 Goodwill will be included in Intangible assets and goodwill.

4. Net financial items

Net financial items mainly consist of interest earned, exchange rate differences, interest related to real estate lease liabilities and interest from finance lease receivables.

5. Taxes

A deferred tax liability of USD 2 206 thousand is recorded on the balance sheet, due to temporary tax differences driven by increasing investments into new games. A tax cost of USD 35 thousand for 3Q19 has been calculated in Funcom Oslo AS and Funcom Oslo Licensing AS.

6. Non-current prepayments and receivables

Non-current prepayments and receivables consist of deposits for real estate, long-term finance lease receivable, and prepayments with remaining duration greater than 12 months.

7. Cash

<i>In thousands of US dollars</i>	30 September	
	3Q-19	3Q-18
Non-restricted cash at bank and in hand	16 182	20 773
Restricted cash	139	150
Cash and cash equivalents	16 321	20 923

8. Average number of shares

<i>In thousands of shares</i>	July - September		January - September	
	3Q-19	3Q-18	2019	2018
Average number of shares (1'000)	77 287	75 637	77 188	72 324

9. Equity

In January 2019 Funcom completed the acquisition of 50.1% of the Portuguese video game development service provider Zona Paradoxal, Lda ("ZPX") with whom it has had a working relationship since 2017. Part of the consideration for the acquisition of the 50.1% ownership in ZPX was 102 363 new shares that Funcom issued to the shareholders of ZPX, each at the price of USD 1.665 per share. The transaction increased the equity attributable to shareholders of Funcom SE with USD 170 thousand and the equity attributable to non-controlling interests by USD 65 thousand. The ZPX-acquisition will not have significant impact on Funcom's financials and is classified as an immaterial business combination in terms of reporting requirements.

In May 2019, Funcom issued 175 133 new shares in relation to exercise of employee options.

10. Segments

The reportable operating segments of the group are defined as:

- PC
- Console: PS4, Xbox and Nintendo Switch
- Other: IP revenue from third parties and game development services

Segment information	Revenue from external customers		Segment profit (loss) *)	
	January - September		January - September	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
PC	12 231	12 266	7 074	8 271
Console	7 586	12 729	5 338	9 168
Other activities	224	427	171	36
Total	20 041	25 422	12 584	17 475
General and administrative expenses			-3 520	-4 488
Depreciation, amortization and impairment charges			-8 700	-4 247
Net financial items			76	-1 423
Profit (loss) before tax			439	7 317

Segment information	Revenue from external customers		Segment profit (loss) *)	
	July - September		July - September	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
PC	3 686	3 376	1 931	2 546
Console	1 611	4 011	1 005	2 708
Other activities	57	147	57	8
Total	5 353	7 534	2 993	5 261
General and administrative expenses			-846	-619
Depreciation, amortization and impairment charges			-2 505	-1 759
Net financial items			137	-199
Profit (loss) before tax			-221	2 684

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

*) Other activities referred to external royalties IP, external consulting services and other.

<i>In thousands of US dollars</i>	PC	Console	Under development	SUM
Segment assets as at 30 September 2018	7 940	2 978	6 968	17 886
Segment assets as at 30 September 2019	6 589	2 543	14 775	23 907

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

11. Goodwill

Goodwill represents the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired. All goodwill relates to the acquisition of ZPX. The ZPX-acquisition will not have significant impact on Funcom's financials and is classified as an immaterial business combination in terms of reporting requirements.

<i>In thousands of US dollars</i>	January - September	
	2019	2018
Goodwill, as at January 1	-	-
Arising on acquisition of ZPX	333	-
Goodwill, end of period	333	-

12. Implementation of IFRS 16 Leases

The Group implemented IFRS 16 Leases as of January 1, 2019, superseding IAS 17 Leases used in 2018. The Group adopted IFRS 16 using the modified retrospective approach. Under this approach, a lessee does not restate comparative information. The cumulative effect of adopting IFRS 16 was recognized as an adjustment to the opening balance of retained earnings as of 1 January 2019. With IFRS 16 all lease agreements are recognised in the balance sheet, and the right-to-use asset and lease liability are recognised in the financial statements.

The Group applied the short-term exemption, which means that all leases with a lease term that ends in 2019 are expensed as before and not capitalized upon transition. The Group also applied the general low value exemption in IFRS 16 for leases of office and other equipment. This means that no low value leases of such assets will be capitalized and that such lease payments are expensed in profit or loss.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates. The associated right-of-use assets were measured at the amount equal to the lease liabilities. The Group recognized finance lease receivables in relation to subleases. Under the principles of the new standard these subleases have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates. The effects from IFRS 16 resulted in a decrease in equity of USD 9 thousand.

IFRS 16 impact on the statement of financial position			
<i>(Figures in TUSD)</i>	(IAS 17) 31.12.2018	Effects from IFRS 16	01.01.2019
ASSETS			
<u>Non-current assets</u>			
Intangible assets	24 711		24 711
Tangible fixed assets	155		155
Right-of-use assets	-	2 681	2 681
Long term receivables	489	306	795
Total non-current assets	25 354	2 987	28 342
<u>Current assets</u>			
Trade receivables	4 797		4 797
Prepayments and other receivables	1 269	441	1 710
Cash and cash equivalents	19 902		19 902
Total current assets	25 968	441	26 409
Total assets	51 322	3 428	54 750

EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital	18 224		18 224
Reserves	188 539		188 539
Retained earnings	-161 589	-9	-161 597
Total equity	45 175	-9	45 166
<u>Non-current liabilities</u>			
Deferred tax liabilities	2 086		2 086
Long-term liabilities	92	-92	-
Lease liabilities, Long-term	-	2 490	2 490
Total non-current liabilities	2 178	2 397	4 575
<u>Current liabilities</u>			
Lease liabilities, Short-term	-	1 032	1 032
Contract liabilities	222		222
Trade payables	1 200		1 200
Other short-term liabilities	2 547	8	2 555
Total current liabilities	3 969	1 040	5 009
Total equity and liabilities	51 322	3 428	54 750

13. Subsequent events

Mr. Ole Gladhaug, previous Chairman of the Supervisory Board, and Mr. Andreas Arntzen have resigned from the Board of Supervisory Directors, effective as per 9 October 2019. Both were representatives of the former largest shareholder of Funcom SE, KGJ Capital AS.

On 24 October it was announced that the transfer of the statutory seat of Funcom SE from the Netherlands to Norway was postponed due to the recent changes in the owner structure of the Company, and Tencent's consideration to request the nomination for appointment of up to two Supervisory Board Members.

On 1 November a convening Notice for an Extraordinary General Meeting of Shareholders was published, with the proposal, amongst other, to appoint Mr. Eddie Tak Ho Chan as new member of the Board of Supervisory Directors and Chairman of Board of Supervisory Directors, and Mr. Peng Lu as new member of the Board of Supervisory Directors.