

# 2019 Fourth Quarter Financial Report

The Funcom® Group  
Funcom SE and subsidiaries

## Words from the CEO

*“The final quarter of 2019 saw the continued strength of Conan Exiles, with two DLC launches leading to a month of December that was the third best in terms of average number of PC players, proving once again that Conan Exiles still has a lot to give. It’s with this energy that we are working towards a paid expansion to release during the second half of 2020, growing the game with new content for players to explore. In addition, we will continue launching cosmetic DLCs and doing free updates to the game as we have done so far.*

*We also released Moons of Madness on PC for Halloween, having been positively received and being a good new entry in the Secret World IP and Funcom’s game portfolio. The console versions of the game are scheduled for release at the end of March and we feel this is a game that lends itself very well to the console gaming experience.*

*In terms of upcoming games, we have Conan Chop Chop getting close to its launch in 2Q 2020, having taken longer than originally planned due to the complexities of a simultaneous release on four platforms for a multiplayer game.*

*And finally, the most important event for shareholders has been the announcement and subsequent launch of a voluntary offer to acquire all shares in Funcom SE by Tencent Cloud Europe BV. The offer was recommended by Funcom’s Supervisory and Management boards as it was concluded that the Offer is fair to Funcom’s shareholders from a financial point of view and in the best interest of Funcom, the sustainable success of its business and clients, employees, shareholders and other stakeholders.”*

Rui Casais  
Chief Executive Officer

## 1. Highlights

- Tencent has launched a voluntary cash offer for all Funcom shares at NOK 17.00 per share, a 27.3% premium and NOK 1.25 more per share than Tencent paid for 29% of the shares in 2019. The offer period ends 16 March 2020 at 16:30 CET. An Offer Document describing the details is available on Funcom's website
- *Conan Exiles* continues the strong 'games as a service' performance with the longevity of the game highlighted by the number of users growing year on year, December '19 being the third best average number PC player month since the January 2017 launch and revenues in 4Q19 being higher than in 4Q18
- With 2019 EBITDA margin of 46%, the company has just completed its three most profitable years to date
- *Moons of Madness* was released on PC, positively received, with the console version launching on 24 March 2020. A Nintendo Switch version of *The Park*, initially launched in 2015, was also launched in the quarter
- The game pipeline continues to be strong as we actively invest in 10 games with focus on the upcoming *DUNE* open world title, and the *Mutant Chronicles* online shooter launching after that. Further funding to support increased ambitions for the *DUNE* game will be secured

## 2. Financials

### 2.1 Fourth quarter financials

- 4Q19 revenue was USD 6 579 thousand, the reduction from 4Q18 revenue at USD 8 354 thousand is due to *Mutant* selling more in 4Q18 than *Moons of Madness* this quarter. *Conan Exiles* had higher revenues this quarter, illustrating the longevity of the game
- 4Q19 EBITDA was USD 3 074 thousand, with EBITDA margin of 46.7%. 4Q18 EBITDA was USD 4 702 thousand, again mainly driven by *Conan Exiles* and the release of *Mutant Year Zero*
- 4Q19 EBIT was USD -512 thousand driven by high amortization expenses due to launch of *Moons of Madness*. 4Q18 EBIT was USD 1 426 thousand
- The equity increased from USD 45 175 thousand in 4Q18 to USD 46 317 thousand
- The cash position was USD 13 131 thousand. The decline from USD 16 321 thousand in 3Q19 is similar to the quarter's increase in trade and other receivables of USD 2 979 thousand, driven by strong December sales for which cash should be received in 2020
- Net cash flow from operating activities for 4Q19 was USD 1 131 thousand, significantly reduced by the USD 2 979 thousand increase in trade and other receivables. The 4Q18 net operating cash flow was USD 2 960 thousand

## 2.2 Full year 2019 financials

- 2019 revenue was USD 26 620 thousand, which is lower than 2018 revenue of USD 33 776 thousand as the publishing games have not been able to fully compensate for the expected reduction of *Conan Exiles* revenue after launch
- Strong 2019 EBITDA of USD 12 137 thousand and 45.6% margin, second best to date. 2018 had EBITDA of USD 17 690 thousand (52.4%). The EBITDA reduction is driven by lower revenue. The 2019 EBITDA was positively impacted by an amount of USD 1 044 thousand as a result of the implementation of IFRS 16
- 2019 EBIT was USD -148 thousand. 2018 EBIT was USD 10 166 thousand. In addition to lower revenues, amortization of publishing games was significantly higher in 2019
- The equity increased from USD 45 175 thousand in 2018 to USD 46 317 thousand,
- The cash position was USD 13 131 thousand, the expected decline from USD 19 902 thousand in 2018 is caused by significant investments in game development and the USD strengthening versus the NOK, reducing the NOK cash balance in USD denomination
- Cash flow from operating activities for 2019 was USD 13 819 thousand versus USD 17 196 thousand in 2018 impacted by lower profitability of the publishing games

### 3. Game activities and pipeline

#### a) Game activities (i)

**GAME ACTIVITIES (1)**

**GAMES:** Anarchy Online, Age of Conan, Secret World Legends  
**GENRE:** MMORPG  
**BUSINESS MODEL:** Free-to-Play, Game as a Service  
**DEVELOPER:** Funcom  
**PLATFORMS:** PC  
**Q4 ACTIVITIES:** Community events

**SECRET WORLD LEGENDS**

**MOONS OF MADNESS**

**GAME:** Moons of Madness  
**GENRE:** Horror Sci-Fi  
**BUSINESS MODEL:** Premium  
**DEVELOPER:** Rock Pocket Games  
**PLATFORMS:** PC, XBOXONE, PS4  
**Q4 ACTIVITY:** PC release  
**ACTIVITIES AFTER 4Q:** Console release 24. March

**THE PARK**

**Game:** The Park  
**GENRE:** Horror adventure  
**BUSINESS MODEL:** Premium  
**DEVELOPER:** Funcom  
**PLATFORMS:** PC, XBOXONE, PS4, Switch  
**Q4 ACTIVITY:** Switch Launch

#### b) Game activities (ii) – Conan Exiles

**GAME ACTIVITIES (II) – CONAN EXILES**

**CONAN EXILES**  
**DEBAUCHERIES OF DERKETO PACK**

**GENRE:** OPEN WORLD MULTIPLAYER

**IP:** CONAN THE BARBARIAN

**Q4 ACTIVITIES:** Riders of Ryboria  
 Steam Free Weekend

**ACTIVITIES AFTER 4Q:** DLC, SPW – 1H 2020  
 Paid expansion 2H 2020

**DEVELOPER:** FUNCOM OSLO

**BUSINESS MODEL:** PREMIUM + DLC

c) New game – DUNE open-world



d) New game – Co-op shooter





e) Publishing and other games



#### 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*, its DLCs and a paid expansion in 2H 2020
  - Launch of *Moons of Madness* on Xbox One and PlayStation 4 on 24 March 2020
  - Launch of *Conan Chop Chop* in 2Q 2020 on PC, Xbox One, PlayStation 4 and Nintendo Switch
  - Launch of a *DUNE* Multiplayer Open World game, investment budget still under consideration and dependent on many parameters, but expected to be in the USD 30m to 50m range
  - Launch of Funcom North Carolina's multiplayer co-op shooter game, after the release of the *DUNE* Multiplayer Open World game
  - Development and release of additional publishing projects and performance of the growing portfolio of released games
- The Company expects to need to secure additional funding in order to execute all the aforementioned activities, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles
- 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

**Badhoevedorp, The Netherlands, 28 February 2020**

**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](http://www.funcom.com)

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

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

<b>CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS (unaudited)</b>				
	Fourth Quarter		Period ended 31 December	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
Revenue	6 579	8 354	26 620	33 776
Operating expenses	-3 505	-3 652	-14 483	-16 086
<b>EBITDA</b>	<b>3 074</b>	<b>4 702</b>	<b>12 137</b>	<b>17 690</b>
Depreciation, amortization and impairment charges	-3 585	-3 276	-12 285	-7 523
<b>Operating result ("EBIT")</b>	<b>-512</b>	<b>1 426</b>	<b>-148</b>	<b>10 166</b>
Net financial items	-219	-540	-144	-1 926
<b>Profit (loss) before income taxes</b>	<b>-731</b>	<b>886</b>	<b>-291</b>	<b>8 240</b>
Income taxes	417	335	2	-1 622
<b>Profit (loss) for the period</b>	<b>-314</b>	<b>1 221</b>	<b>-289</b>	<b>6 618</b>
Attributable to non-controlling interests	28	-	-12	-
Attributable to shareholders of Funcom SE	-342	1 221	-277	6 618
Earnings per share basic (USD)	\$0.00	\$0.02	\$0.00	\$0.09
Earnings per share fully diluted (USD)	\$0.00	\$0.02	\$0.00	\$0.08

<b>CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)</b>				
	Fourth Quarter		Period ended 31 December	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
Profit (loss) for the period	-314	1 221	-289	6 618
Foreign exchange translation difference	1 623	-1 429	102	-1 508
<b>Total comprehensive income for the period</b>	<b>1 309</b>	<b>-208</b>	<b>-187</b>	<b>5 110</b>
Attributable to non-controlling interests	28	-	-12	-
Attributable to shareholders of Funcom SE	1 280	-208	-174	5 110



<b>CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)</b>		
	<b>31 December</b>	
<i>In thousands of US dollars</i>	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<u>Non-current assets</u>		
Intangible assets and goodwill	33 251	24 711
Tangible fixed assets	137	155
Right-of-use assets	3 926	–
Non-current prepayments and receivables	978	489
<b>Total non-current assets</b>	<b>38 291</b>	<b>25 354</b>
<u>Current assets</u>		
Trade receivables	3 837	4 797
Prepayments and other receivables	1 828	1 269
Cash and cash equivalents	13 131	19 902
<b>Total current assets</b>	<b>18 797</b>	<b>25 968</b>
<b>Total assets</b>	<b>57 088</b>	<b>51 322</b>
<b>EQUITY AND LIABILITIES</b>		
<u>Equity</u>		
Share capital	18 287	18 224
Reserves	189 852	188 539
Retained earnings	-161 874	-161 589
Non-controlling interest	52	–
<b>Total equity</b>	<b>46 317</b>	<b>45 175</b>
<u>Non-current liabilities</u>		
Deferred tax liabilities	1 855	2 086
Non-current lease liabilities	3 300	–
Other non-current liabilities	–	92
<b>Total non-current liabilities</b>	<b>5 156</b>	<b>2 178</b>
<u>Current liabilities</u>		
Lease liabilities, Short-term	1 241	–
Contract liabilities	234	222
Trade payables	1 329	1 200
Other short-term liabilities	2 812	2 547
<b>Total current liabilities</b>	<b>5 615</b>	<b>3 969</b>
<b>Total equity and liabilities</b>	<b>57 088</b>	<b>51 322</b>

<b>CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)</b>				
	<b>Fourth Quarter</b>		<b>Period ended 31 December</b>	
<i>In thousands of US dollars</i>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Profit (loss) before income tax</b>	<b>-731</b>	<b>886</b>	<b>-291</b>	<b>8 240</b>
Adjustments to reconcile profit before tax to net cash flows:				
Depreciation, amortization and impairment	3 585	3 276	12 285	7 523
Share-based payments	–	–	920	2 903
Interest income/expense	-17	–	-64	-49
Effect of exchange rate fluctuation	238	41	264	1 322
Changes in Working capital	-2 008	-1 244	669	-2 720
<b>Cash generated from operations</b>	<b>1 067</b>	<b>2 959</b>	<b>13 782</b>	<b>17 219</b>
Interest received	77	–	242	49
Income taxes paid	-13	1	-205	-71
<b>Net cash flow from operating activities (A)</b>	<b>1 131</b>	<b>2 960</b>	<b>13 819</b>	<b>17 196</b>
Purchase of equipment and investment in intangible assets	-4 328	-4 136	-19 803	-16 585
Acquisition of subsidiary, net of cash acquired	–	–	-74	–
<b>Net cash flow from investing activities (B)</b>	<b>-4 328</b>	<b>-4 136</b>	<b>-19 877</b>	<b>-16 585</b>
Net proceeds from issue of share capital	–	104	182	12 374
Principal paid on lease liabilities	-333	–	-1 196	–
Interest paid on lease liabilities	-60	–	-178	–
Proceeds from finance subleases	68	–	398	–
<b>Net cash flow from financing activities (C)</b>	<b>-324</b>	<b>104</b>	<b>-793</b>	<b>12 374</b>
Net cash flow, before exchange rate fluctuations (A+B+C)	-3 521	-1 072	-6 851	12 985
Effect of exchange rate fluctuations	331	51	80	-814
<b>Changes in Cash and cash equivalents</b>	<b>-3 190</b>	<b>-1 021</b>	<b>-6 771</b>	<b>12 171</b>
Cash and cash equivalents, beginning of period	16 321	20 923	19 902	7 731
Changes in Cash and cash equivalents	-3 190	-1 021	-6 771	12 171
<b>Cash and cash equivalents, end of period</b>	<b>13 131</b>	<b>19 902</b>	<b>13 131</b>	<b>19 902</b>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)								
	Share capital	Share premium	Equity-settled employee benefits reserve	Translation reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interests	Total Equity
<i>In thousands of US dollars</i>								
<b>Equity as at January 1, 2018:</b>	13 525	165 028	8 936	-5 604	-168 206	13 678	-	13 678
Profit or loss for the period					6 618	6 618		6 618
Other comprehensive income the period				-1 508		-1 508		-1 508
<b>Total comprehensive income for the period</b>	-	-	-	<b>-1 508</b>	<b>6 618</b>	<b>5 110</b>	-	<b>5 110</b>
Share-based payments expense			2 903			2 903		2 903
Exercise of options	197	796				993		993
Issue of new shares	2 803	16 199				19 001		19 001
Convertible loan to new shares	1 699	1 917				3 616		3 616
Transaction costs related to increase in equity		-127				-127		-127
<b>Equity as at December 31, 2018:</b>	<b>18 224</b>	<b>183 812</b>	<b>11 839</b>	<b>-7 112</b>	<b>-161 589</b>	<b>45 175</b>	-	<b>45 175</b>
IFRS 16 adjustment to opening balance					-9	-9	-	-9
<b>Equity as at January 1, 2019:</b>	<b>18 224</b>	<b>183 812</b>	<b>11 839</b>	<b>-7 112</b>	<b>-161 597</b>	<b>45 166</b>	-	<b>45 166</b>
Profit or loss for the period					-277	-277	-12	-289
Other comprehensive income for the period				102		102		102
<b>Total comprehensive income for the period</b>	-	-	-	<b>102</b>	<b>-277</b>	<b>-174</b>	<b>-12</b>	<b>-187</b>
Share-based payments expense			920			920		920
Exercise of options	39	143				182		182
Issue of new shares	23	147				170		170
Acquisition of subsidiary with NCI						-	65	65
<b>Equity as at December 31, 2019:</b>	<b>18 287</b>	<b>184 103</b>	<b>12 759</b>	<b>-7 010</b>	<b>-161 874</b>	<b>46 265</b>	<b>52</b>	<b>46 317</b>

## 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 31 December 2019 were approved for issue by the Supervisory Board on 28 February 2020.

### 2. Basis for preparation and selected significant accounting policies

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 and therefore it should be read in conjunction with the 2018 Annual Report of the Group.

The principles applied are consistent with those used in the 2018 Annual Report, which has been prepared in accordance with IFRS as adopted by the European Union, including the notes and the report of the Management Board. The 2018 Annual Report of the Group is available on [www.funcom.com](http://www.funcom.com).

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.

#### *Going concern*

The Company expects to need to secure additional funding in order to execute all the planned activities for 2020 and 2021, the largest of which is the *DUNE* Multiplayer Open World game. The amount to be secured will heavily depend on the *DUNE* investment budget and the performance of the existing titles.

Based on cash balance, revenues from a broadening portfolio, future pipeline, a strong shareholder base and access to additional capital the Company's financial situation is sound. 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.

#### *Changes in significant accounting policies*

The Group has adopted IFRS 16 Leases, as from 1 January 2019, see Note 2.8 Leases and Note 12 Implementation of IFRS 16 Leases.

#### 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 Change of Estimates

The Company amortizes investment in the development of technology and game assets on a systematic basis over their useful life. The MMO games *Age of Conan* and *Secret World Legends* and technology have had an amortization period of five years since launch of the games. After a thorough assessment the amortization period of *Age of Conan* and *Secret World Legends* was reduced to three years, better reflecting the current situation of the

industry and the games. The change increased the amortization with USD 62 thousand in 2019, impact in future years is expected to be immaterial.

### 2.3 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.

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.

### 2.4 Equity

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

### 2.5 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”.

### 2.6 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.

### 2.7 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.

### 2.8 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.

### 2.9 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.

### 2.10 Non-GAAP measures

Certain discussions and analyses set out in this announcement include measures which are not defined by generally accepted accounting principles (GAAP) such as IFRS, for instance EBITDA and EBIT. We believe this information, along with comparable GAAP measurements, is useful to investors because it provides a basis for measuring our operating performance, ability to retire debt and invest in new business opportunities. Our management uses these financial measures, along with the most directly comparable GAAP financial measures, in

evaluating our operating performance and value creation. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures.

### 3. Intangible assets and goodwill

<i>In thousands of US dollars</i>	October - December		January - December	
	<b>4Q19</b>	<b>4Q18</b>	<b>2019</b>	<b>2018</b>
Depreciations, intangible assets	-3 441	-3 243	-11 955	-7 488
Additions, intangible assets	4 544	4 034	20 745	22 923
<b>Net addition of intangible assets</b>	<b>1 103</b>	<b>790</b>	<b>8 789</b>	<b>15 435</b>
FX translation effect	1 165	-1 479	-250	-973
<b>Increase of intangible assets</b>	<b>2 268</b>	<b>-689</b>	<b>8 540</b>	<b>14 461</b>
Intangible assets, beginning of period	30 983	18 099	24 711	10 249
Reclassification of IP rights	–	7 300	–	–
Increase of intangible assets	2 268	-689	8 540	14 461
<b>Intangible assets, end of period</b>	<b>33 251</b>	<b>24 711</b>	<b>33 251</b>	<b>24 711</b>

### 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 1 855 thousand is recorded on the balance sheet, due to temporary tax differences driven by increasing investments into new games. A tax cost of USD -2 thousand has been calculated for 2019, mainly related to Funcom Oslo AS and Funcom Oslo Licensing AS.

### 6. Non-current prepayments and receivables

Non-current prepayments and receivables consist of security deposits for real estate and prepayments with remaining duration greater than 12 months.

### 7. Cash

<i>In thousands of US dollars</i>	31 December	
	<b>2019</b>	<b>2018</b>
Non-restricted cash at bank and in hand	12 851	19 693
Restricted cash	280	209
<b>Cash and cash equivalents</b>	<b>13 131</b>	<b>19 902</b>

## 8. Average number of shares

	October - December		January - December	
<i>In thousands of shares</i>	<b>4Q19</b>	<b>4Q18</b>	<b>2019</b>	<b>2018</b>
Average number of shares	77 287	76 940	77 213	73 478

## 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. For more info see Note 11.

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

## 10. Segment information

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 January - December		Segment profit (loss) <sup>[1]</sup> January - December	
	2019	2018	2019	2018
<i>In thousands of US dollars</i>				
PC	16 726	16 783	9 037	11 212
Console	9 554	16 418	6 536	11 726
Other activities <sup>[2]</sup>	340	575	260	78
<b>Total</b>	<b>26 620</b>	<b>33 776</b>	<b>15 833</b>	<b>23 015</b>
General and administrative expenses			-3 696	-5 325
Depreciation, amortization and impairment charges			-12 285	-7 523
Net financial items			-144	-1 926
<b>Profit (loss) before tax</b>			<b>-291</b>	<b>8 240</b>

Segment information	Revenue from external customers October - December		Segment profit (loss) <sup>[1]</sup> October - December	
	2019	2018	2019	2018
<i>In thousands of US dollars</i>				
PC	4 495	4 517	1 963	2 941
Console	1 968	3 689	1 198	2 557
Other activities <sup>[2]</sup>	116	148	88	42
<b>Total</b>	<b>6 579</b>	<b>8 354</b>	<b>3 249</b>	<b>5 540</b>
General and administrative expenses			-175	-838
Depreciation, amortization and impairment charges			-3 585	-3 276
Net financial items			-219	-540
<b>Profit (loss) before tax</b>			<b>-731</b>	<b>886</b>

<sup>[1]</sup> 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.

<sup>[2]</sup> Other activities referred to external royalties IP, external consulting services and other.

<i>In thousands of US dollars</i>	PC	Console	Under	SUM
			development	
Segment assets as at 31 December 2018	7 906	3 484	6 254	17 643
Segment assets as at 31 December 2019	6 910	2 463	16 493	25 866

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

## 11. Acquisition of subsidiary

On 17 January 2019, Funcom acquired 50.1% of the shares and voting interests in Zona Paradoxal, Lda ("ZPX"). The acquisition will increase the Groups own development capacity for upcoming games and reduce costs to the Group. The Group also expects to use the expertise and knowhow acquired in the development of new games.

Since the acquisition date, ZPX has contributed USD 29 thousand to external group revenues and USD -24 thousand to group profit. If the acquisition had occurred on 1 January 2019, group revenue and group profit for the period would have been the same. Acquisition costs of USD 10 thousand arose as a result of the transaction. These have been recognized as part of administrative expenses in the statement of comprehensive income.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

### Purchase consideration

<i>In thousands of US dollars</i>	<b>2019</b>
Cash consideration	228
Shares issued, at fair value	170
<b>Total consideration transferred</b>	<b>398</b>

### Fair value recognised on acquisition

<i>In thousands of US dollars</i>	<b>2019</b>
Tangible fixed assets	2
Trade receivables	52
Prepayments and other receivables	27
Cash and cash equivalents	154
Trade payables	-6
Other short-term liabilities	-98
<b>Total identifiable net assets acquired</b>	<b>130</b>

### Goodwill

<i>In thousands of US dollars</i>	<b>2019</b>
Consideration transferred	398
Non-controlling interest <sup>[1]</sup>	65
Fair value of identifiable net assets	-130
<b>Goodwill</b>	<b>333</b>

<sup>[1]</sup> Non-controlling interest is measured at the proportionate share of net assets.

The main factors leading to the recognition of goodwill are:

- The presence of certain intangible assets, such as the assembled workforce of the acquired entity, which do not qualify for separate recognition.
- Cost savings which result in the Group being prepared to pay a premium.

The goodwill recognized will not be deductible for tax purposes.



## 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.

<b>IFRS 16 impact on the statement of financial position</b>			
<i>(Figures in TUSD)</i>	<b>(IAS 17) 31.12.2018</b>	<b>Effects from IFRS 16</b>	<b>01.01.2019</b>
<b>ASSETS</b>			
<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
<b>Total non-current assets</b>	<b>25 354</b>	<b>2 987</b>	<b>28 342</b>
<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
<b>Total current assets</b>	<b>25 968</b>	<b>441</b>	<b>26 409</b>
<b>Total assets</b>	<b>51 322</b>	<b>3 428</b>	<b>54 750</b>

<b>EQUITY AND LIABILITIES</b>			
<u>Equity</u>			
Share capital	18 224		18 224
Reserves	188 539		188 539
Retained earnings	-161 589	-9	-161 597
<b>Total equity</b>	<b>45 175</b>	<b>-9</b>	<b>45 166</b>
<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
<b>Total non-current liabilities</b>	<b>2 178</b>	<b>2 397</b>	<b>4 575</b>
<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
<b>Total current liabilities</b>	<b>3 969</b>	<b>1 040</b>	<b>5 009</b>
<b>Total equity and liabilities</b>	<b>51 322</b>	<b>3 428</b>	<b>54 750</b>

### 13. Subsequent events

On 22 January 2020 Tencent Holdings Limited announced that they (through an indirectly owned subsidiary, the Offeror) would launch a voluntary cash offer of NOK 17.00 per share to acquire all of the shares of Funcom not already owned by the Offeror. The Offer price represents a premium of 27.3% to the closing price of the shares on 21 January 2020. The Offer was recommended by Funcom's Supervisory Board and Management Board. The Supervisory Board members representing Tencent, Mr. Eddie Chan and Mr. Peng Lu, have not been part of any of the board discussions or decisions on the matter. Neither have they been part of processing the transaction from Tencent's side. The independent agency Pareto Securities AS has issued a fairness opinion concluding the offer was fair from a financial point of view. In connection with the Offer it was also announced that the Management Board would recommend to the Supervisory Board to increase the ambition level of the *DUNE* open world game and release it after approximately two years of production time. This would require a redirection of resources from other initiatives, which would delay the *Mutant Chronicles* online shooter game until after the release of the *DUNE* game, and that the company would secure the necessary funding to support this plan. On 28 February 2020 the Supervisory Board approved the recommendation.

The Offeror and Funcom have entered into a transaction agreement regarding an acquisition of Funcom by the Offeror. On 20 February 2020 an offer document approved by Oslo Stock Exchange was published. DNB Markets, a part of DNB Bank ASA, Registrars department, is the receiving agent. For questions regarding acceptance of the Offer, please contact: Receiving Agent: DNB Markets, Registrars department, tel. +47 23 26 81 01, and filled-in acceptance forms for the Offer are sent to e-mail: retail@dnb.no. The Offer period closes on 16. March 2020 at 16:30 CET.