

# 2017 Third Quarter Financial Report

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

## 1 Financial highlights

- Revenues in 3Q17 amount to USD 6,027 thousand, up from USD 1,728 thousand in 3Q16 and nearly doubled from 2Q17. Conan Exiles and Secret World Legends dominated revenue in the quarter. Conan Exiles was released on Xbox One Game Preview on 16 August 2017 as planned, together with The Frozen North free expansion update on both Xbox and PC. The game quickly reached the Xbox top spots of the charts for paid games and supported a strong quarter. Technical problems impacted the store rating and sales. The success of Secret World Legends that relaunched on 26 June continued in 3Q17.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 3Q17 amount to USD 1,813 thousand compared to USD 97 thousand in 3Q16. The EBITDA margin was 30.1% in 3Q17 compared to 5.6% in 3Q16. The cost level in 3Q17 is higher than in 2Q17 due to launch related costs such as marketing, royalties and porting Conan Exiles to Xbox. In addition, significant investments in the Bearded Dragons partnership game were made during 3Q17, all booked as expenses rather than capitalized development cost. The EBITDA of 3Q17 YTD was USD 9,438 thousand compared to USD -52 thousand in 3Q16 YTD.
- 3Q17 was the third consecutive profitable quarter for Funcom, and represents the most profitable 3Q year to date period in Funcom's history. Profit before tax was USD 1,049 thousand in 3Q17 vs USD -104 thousand in 3Q16, and USD 7,372 thousand in 3Q17 YTD vs USD -1,888 thousand in 3Q16 YTD.
- The total equity increased from USD 3,279 thousand at the end of 3Q16 to USD 16,189 thousand at the end of 3Q17, driven by profits and conversion of debt.
- The cash position increased from USD 5,208 thousand at the end of 3Q16 to USD 8,481 thousand at the end of 3Q17. The cash flow during 3Q17 was USD 663 thousand positive, even though none of the Xbox revenue was received in the quarter due to the payment period.
- At the end of 3Q17 the deferred tax asset recognized on the balance sheet is USD 1,156 thousand, slightly higher than in 2Q17 due to foreign exchange movements.
- The face value of the convertible bond is USD 3,399 thousand, the same as at the end of 2Q17.

### 3 Game highlights

#### 3.1 Secret World Legends:

- After the initial relaunch on 26 June 2017, Secret World Legends was launched successfully on Steam on 31 July 2017.
- A series of updates were made to the game to add content and additional retention features to the game, such as:
  - A revamped Whispering Tide event to celebrate the launch of Steam and the upcoming Tokyo release
  - The “Tokyo: Back to the Beginning” issue in August 2017
  - The “Tokyo: Beyond the Wall” issue in September 2017
  - The “Manhattan Exclusion Zone” Raid with scaling difficulty and with group finder support
  - The “Future-Tech Cache”
  - An ARG “Kiss of the Revenant” in cooperation with Alice & Smith
  - Several updates addressing player concerns, stability, and quality of life fixes.
- Regarding future updates and additions to the game, in 4Q 2017 there will be a focus on improving Key Performance Indicators and in 1Q 2018 the focus will be on major gameplay and story content release to improve retention and provide a more complete experience for the players.

#### 3.2 Conan Exiles:

- After the release of the Frozen North and Xbox Launch, many small updates were done to the game on both platforms, both with stability and performance improvements and with additional small features to keep the players engaged before full launch in 2Q 2018.
- For the full launch in 2Q 2018 on all three platforms (PC, Xbox One and Playstation 4), the team is focused on improving the general quality of the game and finishing the content necessary for the game to be complete.
- The game will be available both on digital and physical stores, in several editions, and the launch price will be higher than the current Early Access price.
  - Exact pricing and detailed information on the various editions will be released before the end of 2017
  - Significant marketing and PR activities will be undertaken to promote the game in the period close to the full release

#### 3.3 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 2018 due to focus on Conan Exiles
- In Funcom North Carolina
  - New project in early concepting and prototyping stage with full production to be dependent on the performance of Secret World Legends

### 3.4 Other:

#### Bearded Dragons cooperation

- Development of the tactical turn-based strategy game has progressed according to project timelines
- Publishing activities are ongoing with Quality Assurance, PR/Marketing, and Project Management resources being integrated with development team
- The game will be launched in 2018, more information about the game will be revealed as we get closer to the launch

**NOTE: For more information about the games please see the 3Q17 Funcom presentation**

### 4 Risk factors:

- For information regarding risk factors for the Company and its games, please refer to note 27 in the 2016 Annual Report.
- For evaluations of the risks related to Funcom games, Funcom encourages investors to seek information about the industry in general and Funcom in specific from analyst reports, industry reports, game reviews, etc.
- Several different financial scenarios should be evaluated when analyzing the potential of any existing or future games. The financial performance of new games and refined business models is uncertain.

### 5 Outlook:

- The medium and long term financial performance of the Company is positive.
- A key factor of the outlook are the full launch of Conan Exiles on PC, Xbox and PS4 and the launch of the Bearded Dragons partnership game, both have the potential to generate significant revenues.
- Following a successful relaunch of Secret World Legends the revenue from this game is starting to stabilize. The team is currently working on initiatives that aim to improve player acquisition, conversion, and monetization. The game's future revenue potential depends on the performance of these initiatives.
- The other games are expected to slowly decline over time due to the ageing of the games, despite the potential of small positive growth in periods.

**Badhoevedorp, The Netherlands, 14 November 2017**

**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 2016 note 27.

- For more information about Funcom, its games and its organization, please see [www.funcom.com](http://www.funcom.com)

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

**FUNCOM N.V. - THIRD QUARTER FINANCIALS OF 2017**  
PRELIMINARY, CONDENSED, NOT AUDITED, FIGURES

(Figures in TUSD)	Third Quarter		Accumulated		Full Year
	2017	2016	2017	2016	2016
Revenue	6 027	1 728	20 020	5 494	7 322
Operating expenses	-4 214	-1 631	-10 582	-5 546	-7 091
<b>EBITDA</b>	<b>1 813</b>	<b>97</b>	<b>9 438</b>	<b>-52</b>	<b>231</b>
Depreciation, amortization and impairment charges	-850	-474	-2 345	-1 373	-1 811
<b>Operating result ("EBIT") from continuing operations</b>	<b>964</b>	<b>-376</b>	<b>7 093</b>	<b>-1 425</b>	<b>-1 580</b>
Share of result from equity-accounted entities					
Net financial items	86	272	279	-463	-1 181
<b>Profit (loss) before income taxes from continuing operations</b>	<b>1 049</b>	<b>-104</b>	<b>7 372</b>	<b>-1 888</b>	<b>-2 761</b>
Income taxes		-1	4		1 066
<b>Profit (loss) from continuing operations</b>	<b>1 049</b>	<b>-105</b>	<b>7 376</b>	<b>-1 888</b>	<b>-1 695</b>
Profit from discontinued operation, net of tax		0		0	0
<b>Profit (loss) for the period</b>	<b>1 049</b>	<b>-105</b>	<b>7 376</b>	<b>-1 888</b>	<b>-1 695</b>
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	1 049	-105	7 376	-1 888	-1 695
Earnings per share basic (USD)	0.00	0.00	0.03	-0.01	-0.01
Earnings per share fully diluted (USD)	0.00	0.00	0.02	-0.01	-0.01
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>					
Profit (loss) for the period	1 049	-105	7 376	-1 888	-1 695
Foreign exchange translation difference	594	-154	497	-305	-357
<b>Total comprehensive income for the period</b>	<b>1 643</b>	<b>-259</b>	<b>7 873</b>	<b>-2 193</b>	<b>-2 052</b>

(Figures in TUSD)	30 September		31 Dec.
	2017	2016	2016
<b>ASSETS</b>			
<u>Non-current assets</u>			
Deferred tax assets	1 156		1 069
Intangible assets	8 619	5 998	6 617
Tangible fixed assets	2	45	4
Long term receivables	380	65	19
<b>Total non-current assets</b>	<b>10 157</b>	<b>6 108</b>	<b>7 709</b>
<u>Current assets</u>			
Trade receivables	3 218	606	628
Prepayments and other receivables	518	242	466
Cash and cash equivalents	8 481	5 208	3 709
<b>Total current assets</b>	<b>12 217</b>	<b>6 057</b>	<b>4 803</b>
<b>Total assets</b>	<b>22 374</b>	<b>12 165</b>	<b>12 512</b>
<b>EQUITY AND LIABILITIES</b>			
<u>Equity</u>			
Share capital	13 525	11 734	11 808
Reserves	167 561	164 901	165 128
Retained earnings	-164 898	-173 356	-173 163
<b>Total equity</b>	<b>16 189</b>	<b>3 279</b>	<b>3 773</b>
<u>Liabilities</u>			
Deferred tax liabilities	19	1	1
Long-term liabilities	3 355	7 054	7 019
Deferred income	641	706	605
Short-term loans and borrowings	169	244	48
Other short term liabilities	2 002	880	1 065
<b>Total liabilities</b>	<b>6 185</b>	<b>8 886</b>	<b>8 739</b>
<b>Total equity and liabilities</b>	<b>22 374</b>	<b>12 165</b>	<b>12 512</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>					
	<b>Third Quarter</b>		<b>Period ended 30 September</b>		<b>Full Year</b>
<i>(Figures in TUSD)</i>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Cash flow from operating activities</b>					
Profit (loss) before income tax and IC elimination	1 061	795	7 389	-1 888	-2 761
Adjustments for:					
Depreciation, amortization and impairment	850	-425	2 345	1 373	1 811
Share-based payments	282	113	479	225	146
Income taxes paid	4		4		
Effect of exchange rate fluctuations		34		-152	
Changes in working capital	-360	-60	-1 918	959	2 125
<b>Net cash from operating activities</b>	<b>1 837</b>	<b>457</b>	<b>8 299</b>	<b>518</b>	<b>1 320</b>
<b>Cash flow from investing activities</b>					
Purchase of equipment and investment in intangible assets	-1 179	-226	-3 748	-2 909	-4 304
Investment in/loan to (from) equity-accounted entities					
<b>Net cash from investing activities</b>	<b>-1 179</b>	<b>-226</b>	<b>-3 748</b>	<b>-2 909</b>	<b>-4 304</b>
<b>Cash flow from financing activities</b>					
Net proceeds from issue of share capital	140	954	470	7 122	7 122
Proceeds / repayments from (of) borrowings and leases					
<b>Net cash from financing activities</b>	<b>140</b>	<b>954</b>	<b>470</b>	<b>7 122</b>	<b>7 122</b>
Change in cash and cash equivalents	798	1 185	5 022	4 731	4 138
Cash and cash equivalents, beginning of period	7 818	5 100	3 709	616	616
<b>Cash and cash equivalents, end of period before exchange effect</b>	<b>8 616</b>	<b>6 285</b>	<b>8 731</b>	<b>5 347</b>	<b>4 755</b>
Effect of exchange rate fluctuations	-135	-1 076	-251	-139	-1 045
<b>Cash and cash equivalents, end of period after exchange effect</b>	<b>8 481</b>	<b>5 208</b>	<b>8 481</b>	<b>5 208</b>	<b>3 710</b>

<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>			
	<b>30 September</b>		<b>Full Year</b>
<i>(Figures in TUSD)</i>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Opening balance</b>	<b>3 773</b>	<b>-9 561</b>	<b>-9 561</b>
Total comprehensive income for the period	7 873	-2 193	-2 052
Equity issues	3 906	14 176	14 609
Granting of warrants			
Exercise of warrants	157	157	157
Equity portion of the new convertible loan		394	394
Equity portion of the additional convertible bond		82	82
Share-based payments	479	225	146
<b>Closing balance</b>	<b>16 189</b>	<b>3 278</b>	<b>3 773</b>

## NOTES TO THE INTERIM REPORT

### 1 Corporate information

Funcom N.V. is a limited company registered in The Netherlands, and the shares are publicly traded on the Oslo Stock exchange under the ticker "FUNCOM". The principal activity of the Company is to develop, market and carry on business in computer and console games in the broadest sense. The unaudited interim condensed consolidated financial statements for the Company for the nine months ended 30 September 2017 were approved for issue by the Supervisory Board on 14 November 2017.

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

Based on successful launches during 2017 the company's financial situation has improved. The funding of the operations for a period of at least one year after the date of this quarterly report is realistic. Therefore, management is of the opinion that the going concern assumption is justified and consequently the unaudited interim condensed consolidated financial statements of the Company for the nine months ended 30 September 2017 have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.

The unaudited interim condensed consolidated financial statements of the Company for the nine months ended 30 September 2017 have been prepared in accordance with IAS 34. The latter means that these interim financial statements do not include all information and disclosures required in annual financial statements but only selected significant information. The principles applied are consistent with those used in the 2016 Annual Report.

As of 1 January 2017, the Group has adopted the mandatory revised standards, amendments to existing standards and interpretations as adopted by the EU, applicable for this quarter. Their adoption has not had any significant impact on the amounts reported in this interim report but may affect the accounting for future transactions or arrangements. Management has not yet completed the evaluation of the impact on the financial statements of standards issued, but with an adoption date on 1 January 2018 or later.

All amounts are in USD thousand unless stated otherwise. There may be some minor rounding differences or the total may deviate from the total of the individual amounts. This is due to the rounding to whole thousands of individual amounts.

#### 2.1 Basis of consolidation

The Company's Interim consolidated financial statements comprise of Funcom N.V. and companies in which Funcom N.V. has a controlling interest.

#### 2.2 Intangible assets

Intangible assets are recognized in the balance sheet if it can be confirmed that there are probable future economic benefits that can be attributed to the assets that are owned by the Company, and the assets' cost price can be reliably estimated. Intangible assets are initially recognized at their cost price and subsequently measured using the cost method (i.e. historical cost less accumulated amortization and accumulated impairment losses). A review to assess whether there are indicators of impairment is undertaken at the end of each reporting period. In addition, intangible assets not yet available for use are tested for impairment annually.

### 2.3 Equity

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

### 2.4 Deferred revenues

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

Revenues from the sales of game software, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized on a straight-line basis over the estimated customer life. The company enters into multiple-element revenue arrangements where it provides combinations of game software and subscription or subscription and in-game items. The Company accounts for revenues from each item separately following the revenue recognition policies above. Up-front payments for subscriptions and other up-front revenues are recognized in the statement of financial position as a liability.

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

## **3 Operating revenues**

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

## **4 Operating expenses**

Personnel 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, which normally does not exceed five years. The company applies the diminishing balance amortization method that reflects the pattern of consumption of the future economic benefits. If that pattern cannot be determined reliably, the company uses the straight-line method. The increase of intangible assets in 3Q17 was USD 917 thousand. Of this USD 475 thousand is a translation effect, reflecting that the USD value of the intangible assets increase when the USD / NOK foreign exchange rate increases, as the intangible assets are held by Funcom Oslo in NOK. This means the underlying net addition of intangible assets in 3Q17 affecting the result is USD 441 thousand.

## **6 Net financial items**

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



## 7 Taxes

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

Funcom recognized the accumulated tax loss of Funcom Oslo AS as of 31 December 2016 as a deferred tax assets. This was based on the successful launch of *Conan Exiles* in Q1 2017 and positive outlook, assessed to be sufficient to recover the accumulated tax loss in Funcom Oslo AS, in line with IAS 12.35. The company is expected to be in tax payable position in Norway for FY 2017. The 2017 tax will be determined at year-end when preparing the financial results for the year.

## 8 Long term receivables

Long term receivables consists of deposits for real estate leases and prepaid operating expenses.

## 9 Cash

Cash and cash equivalents are USD 8,481 thousand. Of these USD 509 thousand are restricted.

## 10 Liabilities

Long-term liabilities consist of a USD 3,355 thousand convertible bond.

The convertible bond matures on 31 December 2018, with an interest rate of 3.5%, and a conversion price of USD 0.1036 per share. In April 2017 USD 3,500 thousand (plus accrued interest) was converted into new shares. As of 30 September 2017, the remaining bonds have a carrying amount of USD 3,355 thousand and an actual balance due of USD 3,399 thousand. The convertible bond is the only outstanding interest-bearing debt.

Short-term loans and borrowings consist of USD 169 thousand rental incentives.

## 11 Cash flows

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

## 12 Average number of shares

	Third quarter		Nine months	
	2017	2016	2017	2016
Average number of shares (1'000)	289,066	240,021	275,701	157,576

### 13 Other comprehensive income

In accordance with IAS 21, the Company reported in 3Q17 under the 'Other comprehensive income' a foreign exchange gain amounting to USD 594 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 14,123 thousand at the end of 2Q17 to USD 16,189 thousand at the end of 3Q17.

### 15 Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and to assess its performance. The reportable operating segments of the group are defined as:

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

#### Segment information

	Revenue from external customers January - September		Segment profit (loss) *) January - September	
	2017	2016	2017	2016
Online games	19 306	4 458	15 314	1 732
Offline games	356	650	205	374
Other activities	358	386	-390	-32
<b>Total</b>	<b>20 020</b>	<b>5 494</b>	<b>15 130</b>	<b>2 075</b>
General and administrative expenses			-5 680	-2 127
Depreciation, amortization and impairment charges			-2 345	-1 373
Net financial items			271	-463
<b>Profit (loss) before tax (from continuing operations)</b>			<b>7 376</b>	<b>-1 888</b>

  

	Revenue from external customers July - September		Segment profit (loss) *) July - September	
	2017	2016	2017	2016
Online games	5 837	1 389	4 136	1 490
Offline games	78	193	-70	143
Other activities	112	146	-402	-19
<b>Total</b>	<b>6 028</b>	<b>1 728</b>	<b>3 664</b>	<b>1 614</b>
General and administrative expenses			-2 237	-1 005
Depreciation, amortization and impairment charges			-850	24
Net financial items			470	-633
<b>Profit (loss) before tax (from continuing operations)</b>			<b>1 048</b>	<b>-105</b>

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

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

	Online games	Offline games
Segment assets as at 30 September 2016	5 888	
Segment assets as at 30 September 2017	8 305	

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

## **16 Subsequent events**

On 18 October 2017 Funcom announced that based on the quality improvement ambitions as presented in the 2Q17 presentation, Conan Exiles is scheduled for release in early 2Q18, dependent on market conditions.