

2019 Second Quarter Financial Report

The Funcom® Group
Funcom SE and subsidiaries

Comments from the CEO

"2019 is a transition year for Funcom, the transition between the turnaround and the growth phases of the Company, and as is common in any transition, many of the changes are not immediately visible.

From January until now we released a new game, Conan Unconquered, a new DLC for Mutant Year Zero: Road to Eden and two new DLCs for Conan Exiles. While this is a good number of activities, especially compared with previous years where releases were few and far between, what is equally important are all the less obvious achievements and learnings happening internally.

With Mutant, we have for the first time released a game on Nintendo Switch and the game is now available on three subscription services, over six different PC storefronts, three console stores, a total of more than 12 digital sales channels, and then there's retail distribution on top. The experience and insight gained from activating these sales channels will be very valuable for our future games.

With Conan Unconquered we saw an opportunity to experiment with a low budget game in a new genre for Funcom, "Real-Time Strategy". We worked with a developer with a long track record in the genre to create a small game that isn't a classical example of the genre, but a twist on it. Unfortunately, the reception from the players was not as positive as we hoped for. We are grateful for their feedback and based on that feedback we have made free updates to the game and have a larger update ready to go out soon. We are improving our processes based on this experience and we still believe in this genre, but it's clear that the budget and quality of this game was not high enough.

While these publishing games get a fair bit of attention due to being new releases, Conan Exiles also continues to perform well, showing the fundamental value of our core competence: multiplayer games as a service. It's with that in mind that we have decided to put on hold the Conan single player game to focus the developers and management in the Oslo studio on Conan Exiles and DUNE, our next large multiplayer open world game.

We are incredibly excited about the DUNE game and its potential, both in financial terms and genre-defining gameplay. It is a game we believe can surpass Conan Exiles and we want to do it right, creating a game that is of high quality, technically and gameplay-wise. Legendary and Warner Brothers have announced that the DUNE movie will be releasing in December 2020, and we continue to work closely with Legendary to make sure we capitalize on the opportunities and synergies between the movie and the game.

In our North Carolina studio we continue to work on the multiplayer shooter game we hope to start revealing more of soon and bring to market in 2020.

Finally, we have more publishing games in the pipeline, with Moons of Madness and Conan Chop Chop having been revealed, as well as other unannounced titles.

The path ahead is clear in our minds, with our future multiplayer games leading the charge and being supported by Conan Exiles and the smaller publishing games in both revenue and key learnings.

I hope you are able to join us and be part of the growth, the success and the great games this path will lead us to.”

*Rui Casais,
Chief Executive Officer*

1. Highlights

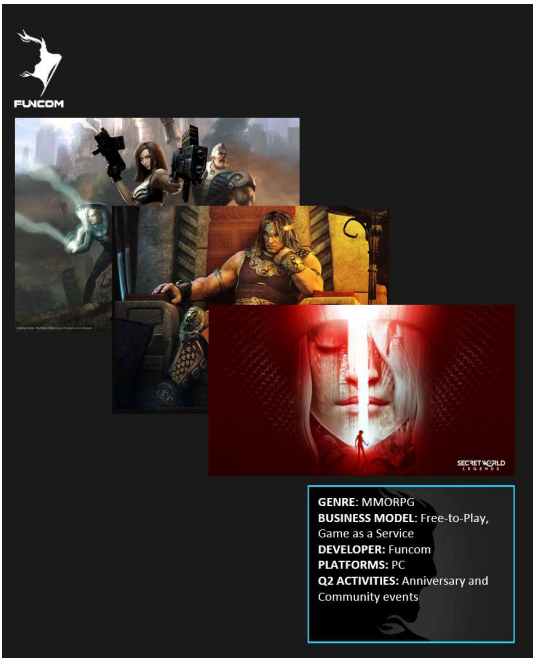
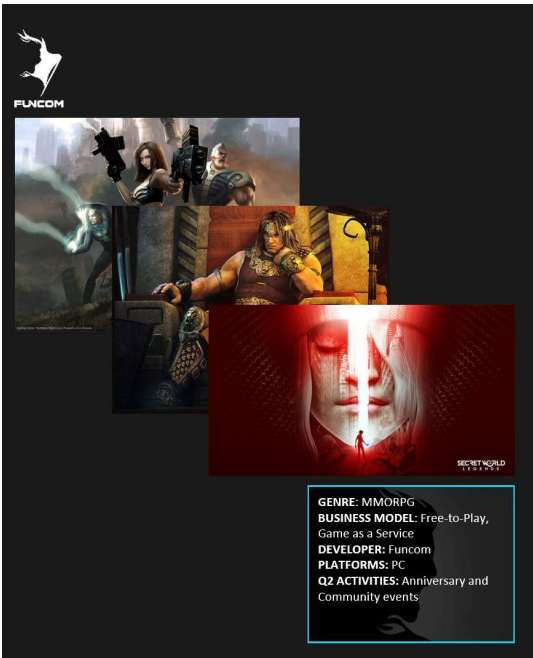
- Both the revenue and EBITDA of the quarter increased more than 50% compared to 1Q19, and the cash position reached USD 20.3 million
- *Conan Exiles* continued to perform well with two DLC releases, a Steam free weekend and inclusion in the PlayStation 4 Plus game of the month during the quarter. Three additional DLC releases are planned for 2019, and additional user acquisition, engagement and monetization activities are being planned for 2020
- *Conan Unconquered* was released on PC on 30 May. The game did not reach the initial reception and sales projections of the Company. The Company is taking steps to improve and repackage the game
- On 31 July, Funcom made its first release on the Nintendo Switch platform with *Mutant Year Zero: Road to Eden*. A new DLC was also released on all platforms and retail
- The Funcom Oslo studio is placing additional focus on the Multiplayer Open World games, further developing *Conan Exiles* and increasing 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 and 8 other active projects (additional publishing games or activities for existing games, such as SKUs, updates, stores, platforms, etc.)

2. Financials


- Revenue for the quarter increased 53% from 1Q19 to USD 8 876 thousand driven by strong performance of *Conan Exiles* and *Mutant Year Zero*, in addition to launch of *Conan Unconquered*. 2Q18 amounted to USD 15 211 thousand, mainly driven by full launch of *Conan Exiles*
- EBITDA increased 72% from 1Q19 to USD 4 372 thousand, versus USD 8 268 thousand in 2Q18, again 2Q18 mainly driven by the full launch of *Conan Exiles*. The 12-month rolling EBITDA margin at 2Q19 was 53%, close to the highest in Funcom history
- EBIT increased to USD 594 thousand from USD 128 thousand in 1Q19, versus USD 6 995 thousand in 2Q18. The 2Q19 EBIT includes a significant charge for depreciation and amortization (USD 3 778 thousand, compared to USD 1 273 for 2Q18) due to the recent significant investments in game development combined with the diminishing balance amortization of *Mutant Year Zero* and *Conan Unconquered*
- The equity increased 4% from 1Q19 to USD 47 639 thousand, versus USD 42 338 thousand in 2Q18
- The cash position increased by 3% from 1Q19 to USD 20 272 thousand, versus USD 18 250 thousand in 2Q18, despite significant investments in game development in the periods
- Cash flow from operating activities increased 60% from 1Q19 to USD 6 570 thousand, versus USD 7 273 thousand in 2Q18

3. Game activities and pipeline


a) Game activities in 2Q19 (i)



GENRE: MMORPG
BUSINESS MODEL: Free-to-Play, Game as a Service
DEVELOPER: Funcom
PLATFORMS: PC
Q2 ACTIVITIES: Anniversary and Community events

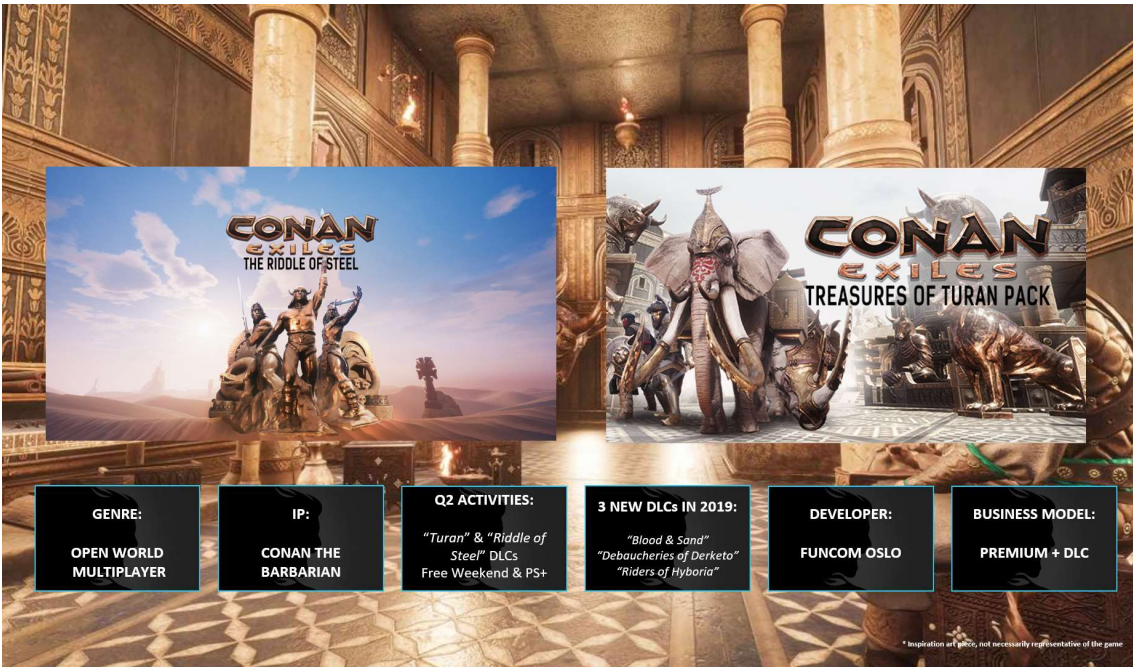
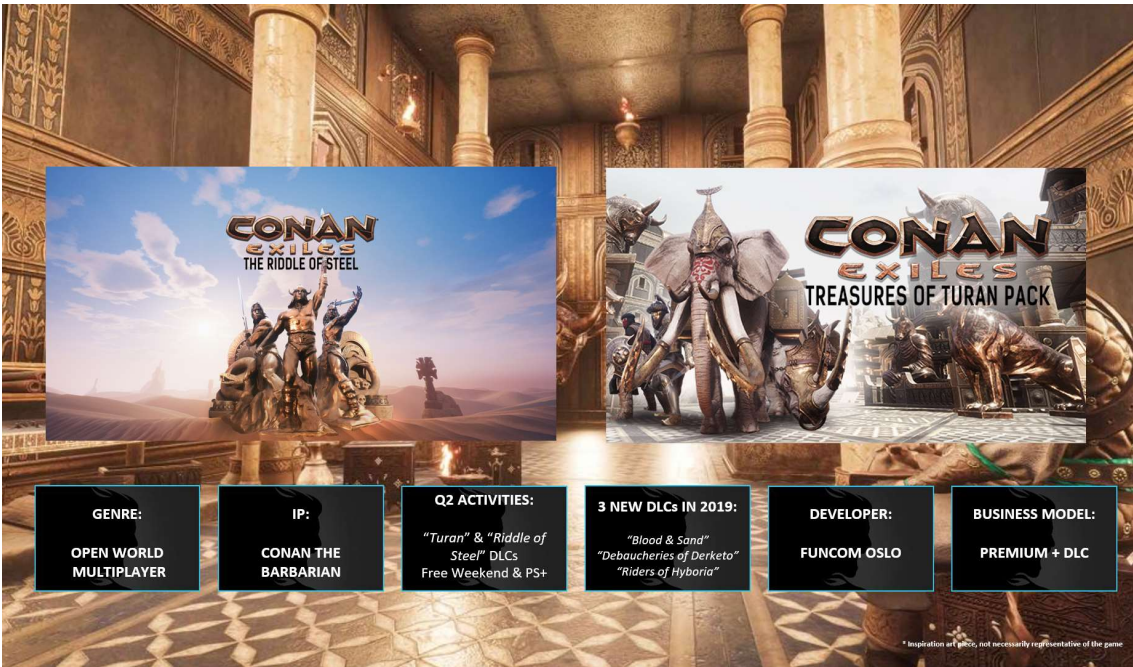


GENRE: Survival Strategy
IP: Conan The Barbarian
BUSINESS MODEL: Premium
DEVELOPER: Petroglyph
PLATFORMS: PC
Q2 ACTIVITY: Release 31 May
FUTURE ACTIVITIES: Free update + Repackaging



GENRE: Tactical Adventure
IP: Mutant: Year Zero
BUSINESS MODEL: Premium + DLC
DEVELOPER: The Bearded Ladies
PLATFORMS: PC, XBONE, PS4, Switch
Q2 ACTIVITIES: DLC presale
After Q2: DLC, Switch and retail release (30 July)

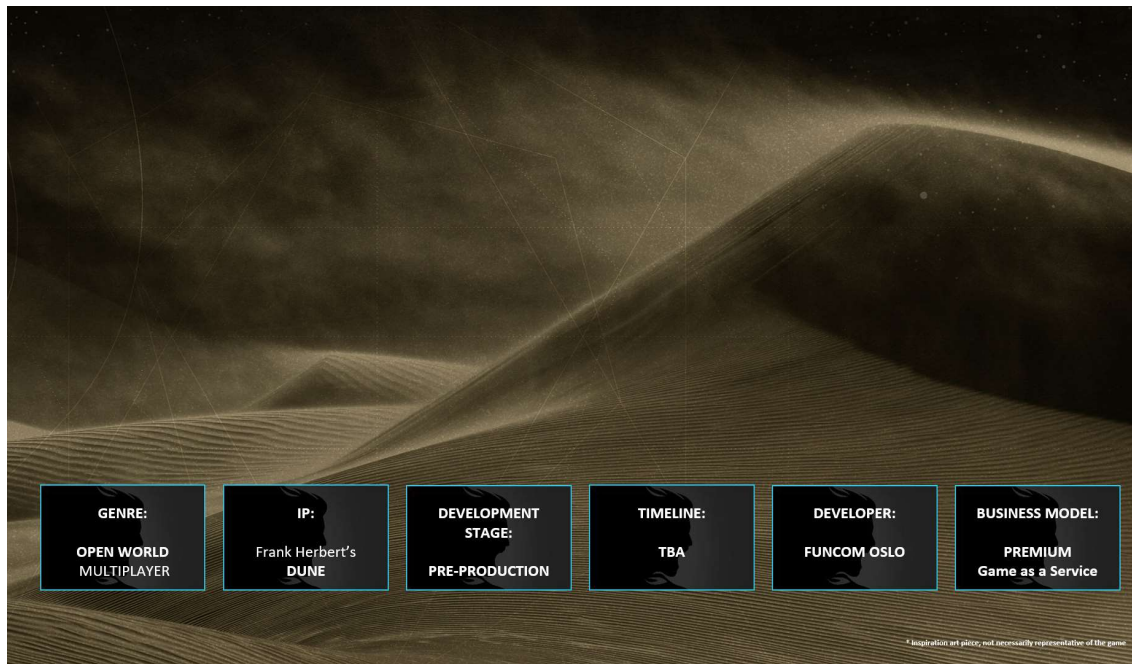
b) Game activities in 2Q19 (ii) – Conan Exiles



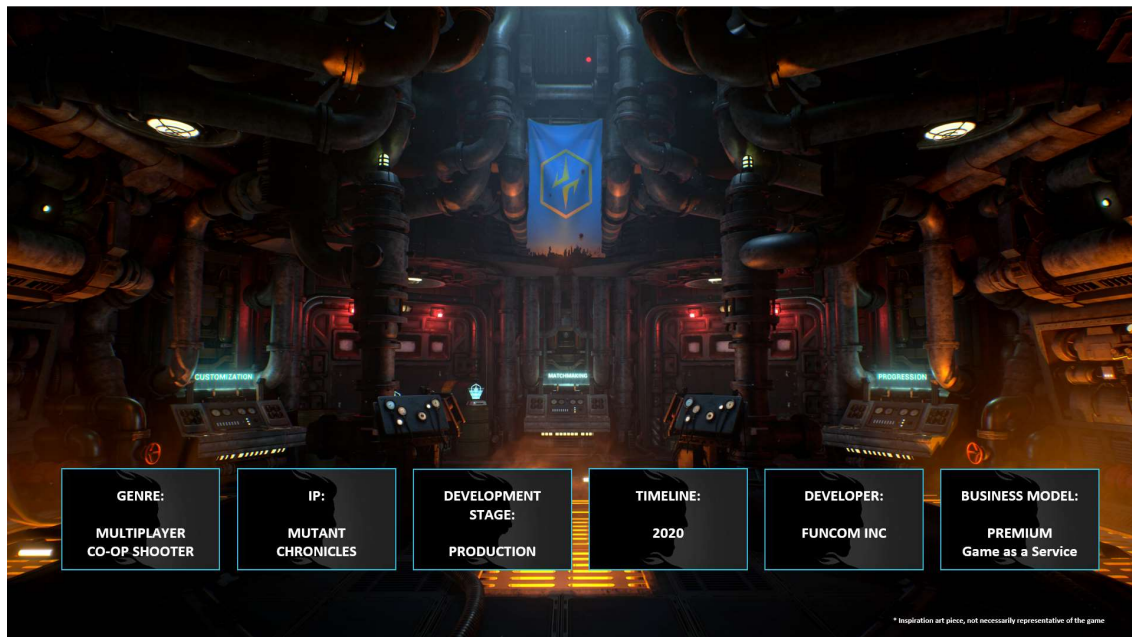
GENRE: OPEN WORLD MULTIPLAYER	IP: CONAN THE BARBARIAN	Q2 ACTIVITIES: "Turan" & "Riddle of Steel" DLCs Free Weekend & PS+	3 NEW DLCs IN 2019: "Blood & Sand" "Debaucheries of Derketo" "Riders of Hyboria"	DEVELOPER: FUNCOM OSLO	BUSINESS MODEL: PREMIUM + DLC
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* Inspiration art only, not necessarily representative of the game

c) New game – DUNE open-world



d) New game – Co-op shooter



e) Publishing and other games

The slide displays two game projects with their respective details:

Project Name	Genre	Platforms	Release	Status
MOONS OF MADNESS	Single-player horror/puzzle	PC - XBOX ONE - PS4	Halloween 2019	In Production
CONAN CHOP CHOP	Single & Multiplayer "Rogue-like"	PC - XBOX ONE - PS4 - Switch	Q1 2020	In Production

Below the project details, the slide states: "+2 Unannounced publishing projects".

At the bottom, a blue box contains the text: "12 active projects in total: 6 new + 6 existing game projects".

f) Internal Game development prioritization

- Conan Exiles shows strong games as a service performance and active support and development will continue
- The Open-world survival segment has very large reach and with our Dune open world game we are applying learnings from Conan Exiles to make an even better and broader reaching game
- We still believe in the Conan single player game but right now Conan Exiles and Dune represent the biggest potential. As such, the single player game is temporarily put on hold
- The Co-op shooter continues to have the focus of the US studio as we consider that segment of online games to have potential for the Company going forward

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 financial performance outlook of the Company is positive, with ongoing significant investments into both internal and published games, most of which for projects launching in 2020 and beyond
- Key factors of the outlook
 - The continued sales of *Conan Exiles* and *Mutant Year Zero: Road to Eden*
 - Launch of *Moons of Madness* in the Halloween season of 2019 on PC, Xbox One and PlayStation 4
 - Launch of *Conan Chop Chop* in 2020 on PC, Xbox One, Playstation 4 and Switch
 - Launch of Funcom North Carolina's Multiplayer co-op shooter game in 2020
 - Development and release of additional publishing projects
 - Launch of a DUNE Multiplayer Open World game
- 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, 26 August 2019

The Management Board of Funcom SE

- 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. 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 - SECOND QUARTER FINANCIALS OF 2019

PRELIMINARY, CONDENSED, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS (unaudited)					
	Second Quarter		Period ended 30 June		Full Year
<i>(Figures in TUSD)</i>	2019	2018	2019	2018	2018
Revenue	8 876	15 211	14 688	17 888	33 776
Operating expenses	-4 504	-6 943	-7 772	-9 543	-16 086
Earnings Before Interest, Tax, Depreciation and Amortization	4 372	8 268	6 916	8 345	17 690
Depreciation, amortization and impairment charges	-3 778	-1 273	-6 194	-2 488	-7 523
Operating result ("EBIT")	594	6 995	721	5 857	10 166
Net financial items	1	-1 191	-61	-1 225	-1 926
Profit (loss) before income taxes	594	5 804	660	4 632	8 240
Income taxes	-424	-1 519	-379	-1 519	-1 622
Profit (loss) for the period	171	4 286	281	3 114	6 618
Attributable to non-controlling interests	-23	-	-28	-	-
Attributable to shareholders of Funcom SE	193	4 286	309	3 114	6 618
Earnings per share basic (USD)	0.00	0.06	0.00	0.05	0.09
Earnings per share fully diluted (USD)	0.00	0.05	0.00	0.04	0.08

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)					
	Second Quarter		Period ended 30 June		Full Year
<i>(Figures in TUSD)</i>	2019	2018	2019	2018	2018
Profit (loss) for the period	171	4 286	281	3 114	6 618
Foreign exchange translation difference	411	-490	854	-58	-1 508
Total comprehensive income for the period	581	3 796	1 135	3 055	5 110
Attributable to non-controlling interests	-23	-	-28	-	-
Attributable to shareholders of Funcom SE	604	3 796	1 163	3 055	5 110

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (unaudited)			
	30 June 2019	2018	31 Dec 2018
<i>(Figures in TUSD)</i>			
ASSETS			
<u>Non-current assets</u>			
Intangible assets	29 554	16 194	24 711
Tangible fixed assets	161	35	155
Goodwill	344	-	-
Right-of-use assets	2 361	-	-
Investments accounted for using the equity method	-	8 186	-
Long term receivables	591	513	489
Total non-current assets	33 011	24 928	25 354
<u>Current assets</u>			
Trade receivables	3 423	7 530	4 797
Prepayments and other receivables	1 700	585	1 269
Cash and cash equivalents	20 272	18 250	19 902
Total current assets	25 394	26 365	25 968
Total assets	58 405	51 293	51 322
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital	18 287	17 895	18 224
Reserves	190 604	189 536	188 539
Retained earnings	-161 288	-165 093	-161 589
Non-controlling interest	36	-	-
Total equity	47 639	42 338	45 175
<u>Non-current liabilities</u>			
Deferred tax liabilities	2 328	2 105	2 086
Long-term liabilities	-	145	92
Lease liabilities, Long-term	1 862	-	-
Total non-current liabilities	4 190	2 250	2 178
<u>Current liabilities</u>			
Lease liabilities, Short-term	1 146	-	-
Contract liabilities	1 318	350	222
Short-term loans and borrowings	-	560	-
Trade payables	1 362	1 403	1 200
Other short-term liabilities	2 750	4 392	2 547
Total current liabilities	6 576	6 706	3 969
Total equity and liabilities	58 405	51 293	51 322

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)					
	Second Quarter		Period ended 30 June		Full Year
(Figures in TUSD)	2019	2018	2019	2018	2018
Profit (loss) before income tax	594	5 804	660	4 632	8 240
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, amortization and impairment	3 778	1 273	6 194	2 488	7 523
Share-based payments	920	2 691	920	3 016	2 903
Interest income/expense	-12	-	-49	-	-49
Effect of exchange rate fluctuation	66	1 165	165	1 165	1 322
Changes in Working capital	1 186	-3 614	2 840	-3 371	-2 720
Cash generated from operations	6 533	7 319	10 731	7 931	17 219
Interest received	47	-	121	-	49
Income taxes paid	-9	-46	-180	-47	-71
Net cash flow from operating activities (A)	6 570	7 273	10 673	7 884	17 196
Purchase of equipment and investment in intangible assets	-5 845	-5 621	-10 154	-8 582	-16 585
Investment in equity-accounted entities	-	-	-	-121	-
Net cash flow from investing activities (B)	-5 845	-5 620	-10 154	-8 704	-16 585
Net proceeds from issue of share capital	182	714	182	12 094	12 374
Acquisitions, net of cash acquired, and other	-	-	-84	-	-
Repayment of lease liabilities	-349	-	-553	-	-
Interest on lease liabilities	-35	-	-72	-	-
Lease payments received from finance leases	112	-	223	-	-
Net cash flow from financing activities (C)	-90	714	-304	12 094	12 374
Net cash flow, before exchange rate fluctuations (A+B+C)	635	2 366	215	11 274	12 985
Cash and cash equivalents, beginning of period	19 614	16 533	19 902	7 731	7 731
Cash and cash equivalents, end of period before exchange effect	20 249	18 899	20 117	19 006	20 716
Effect of exchange rate fluctuations	22	-648	155	-755	-814
Cash and cash equivalents, end of period after exchange effect	20 272	18 250	20 272	18 250	19 902

CONDENSED CONSOLIDATED STATEMENT OF 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					3 114	3 114		3 114
Other comprehensive income for the period				-58		-58		-58
Total comprehensive income for the period				-58	3 114	3 055		3 055
Share-based payments expense			3 016			3 016		3 016
Exercise of options	141	573				714		714
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 June 30, 2018:	17 894	183 246	11 952	-5 662	-165 093	42 338	-	42 338
Profit or loss for the period					3 504	3 504		3 504
Other comprehensive income for the period				-1 450		-1 450		-1 450
Total comprehensive income for the period	-	-	-	-1 450	3 504	2 054		2 054
Share-based payments expense			-113			-113		-113
Exercise of options	56	224				280		280
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					309	309	-28	281
Other comprehensive income for the period				854		854		854
Total comprehensive income for the period	-	-	-	854	309	1 163	-28	1 135
IFRS 16 adjustment to opening balance					-9	-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 June 30, 2019:	18 287	184 103	12 759	-6 258	-161 288	47 603	36	47 639

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 17.05 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 June 2019 were approved for issue by the Supervisory Board on 26 August 2019.

2. Basis for preparation and selected significant accounting policies

Based on a strong cash balance, recent launches, future pipeline 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. 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 after 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.

3. Intangible assets

<i>In thousands of US dollars</i>	April-June	
	2Q-19	2Q-18
Intangible assets, beginning of period	26 996	24 711
Increase of intangible assets	2 557	4 843
Intangible assets, end of period	29 554	29 554
Depreciations, intangible assets	-3 704	-1 272
Additions, intangible assets	5 901	5 441
Net addition of intangible assets	2 196	4 169
FX translation effect	-361	-674
Increase of intangible assets	2 557	4 843

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 2 328 thousand is recorded on the balance sheet, due to temporary tax differences driven by increasing investments into new games. A tax cost of USD 424 thousand for 2Q19 has been calculated in Funcom Oslo AS and Funcom Oslo Licensing AS.

6. Long-term receivables

Long-term receivables consist of deposits for real estate, and long-term finance lease receivable.

7. Cash

<i>In thousands of US dollars</i>	30 June	
	2Q-19	2Q-18
Non-restricted cash	20 029	17 833
Restricted cash	243	417
Cash and cash equivalents	20 272	18 250

8. Average number of shares

<i>In thousands of shares</i>	April-June		January-June	
	2Q-19	2Q-18	2019	2018
Average number of shares ('000)	77 185	75 107	77 137	70 640

9. Equity

The equity of the Group increased from USD 45 955 thousand at the end of 1Q19 to 47 639 USD thousand at the end of 2Q19.

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 and Xbox
- Other: IP revenue from third parties and game development services

Segment information	Revenue from external customers		Segment profit (loss) *)	
	January - June		January - June	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
PC	8 545	8 890	5 143	6 207
Console	5 975	8 718	4 333	6 655
Other activities	168	280	114	28
Total	14 688	17 888	9 590	12 891
General and administrative expenses			-2 675	-4 546
Depreciation, amortization and impairment charges			-6 194	-2 488
Net financial items			-61	-1 225
Profit (loss) before tax			660	4 632

Segment information	Revenue from external customers		Segment profit (loss) *)	
	April - June		April - June	
<i>In thousands of US dollars</i>	2019	2018	2019	2018
PC	4 489	6 834	2 698	4 276
Console	4 356	8 243	3 269	5 818
Other activities	30	134	31	10
Total	8 876	15 211	5 998	10 104
General and administrative expenses			-1 626	-1 836
Depreciation, amortization and impairment charges			-3 778	-1 273
Net financial items			1	-1 191
Profit (loss) before tax			594	5 804

*) 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.

	PC	Console	Under development	SUM
Segment assets as at 30 June 2018	8 231	3 107	4 393	15 730
Segment assets as at 30 June 2019	8 045	2 873	11 477	22 395

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 of our 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-June	
	2019	2018
Goodwill, as at January 1	-	-
Arising on acquisition of ZPX	344	-
Goodwill, end of period	344	-

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 retrospectively 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			
(Figures in TUSD)	(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

No subsequent events of relevant significance have been recorded.

Directors' responsibility statement

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

The Consolidated Interim Financial Statements for the six months ended 30 June 2019 give a true and fair view of the assets, liabilities, financial position and profit or loss of Funcom SE and its consolidated companies, and

The Interim Directors' Report gives a true and fair view of:

- the development and performance of the business during the first six months of the financial year of Funcom SE and its consolidated companies and the consequences thereof on the unaudited interim condensed consolidated financial statements for the Company for the half year ended 30 June 2019;
- the relevant share transactions with related parties during the first six months of the financial year;
- the expected development and performance of the business, provided that the interests of Funcom SE and its consolidated companies are not harmed by disclosure, with particular attention to the investments, and the circumstances of which the development of revenues and profitability are dependent;
- the relevant risks and uncertainties for the remaining six months of the financial year.

Badhoevedorp, The Netherlands
26 August 2019

The Management Board of Funcom SE

Rui Casais (Chairman of the Management Board and CEO)
Christian Olsthoorn (Management Board member)

2Q 2019 PRESENTATION



FUNCOM

26 August 2019



2Q HIGHLIGHTS

49% EBITDA MARGIN AND INCREASING CASH POSITION

CONAN EXILES SHOWS STRONG GAMES AS A SERVICE PERFORMANCE

STRONG PIPELINE WITH INTERNAL AND PUBLISHED GAMES

A close-up, high-contrast photograph of a man's face, focusing on his eyes, nose, and mouth. The lighting is dramatic, with strong shadows. A black rectangular text box is positioned in the lower-left quadrant of the image.

2Q 2019 FINANCIALS



2Q19 FINANCIALS

2Q19 SIGNIFICANTLY BETTER THAN 1Q19

MUSD	2Q 19	1Q 19	2Q 18
Revenue	8.9	5.8	15.2
EBITDA	4.4	2.5	8.3
EBIT	0.6	0.1	7.0
Profit, pre-tax	0.6	0.1	5.8
Cash	20.3	19.6	18.3
Equity	47.6	46.0	42.3
Debt	0.0	0.0	3.4

- 2Q19 revenue and EBITDA 53% and 72% higher than 1Q19, respectively
- 2Q18 better than 2Q19 due to launch of Conan Exiles
- 2Q19 release activity

CONAN
EXILES

2 DLCs, PlayStation +, Season pass, Steam Free Weekend

MUTANT
ROAD TO EDEW

Reveal of Seed of Evil DLC

CONAN
UNCONQUERED

Release

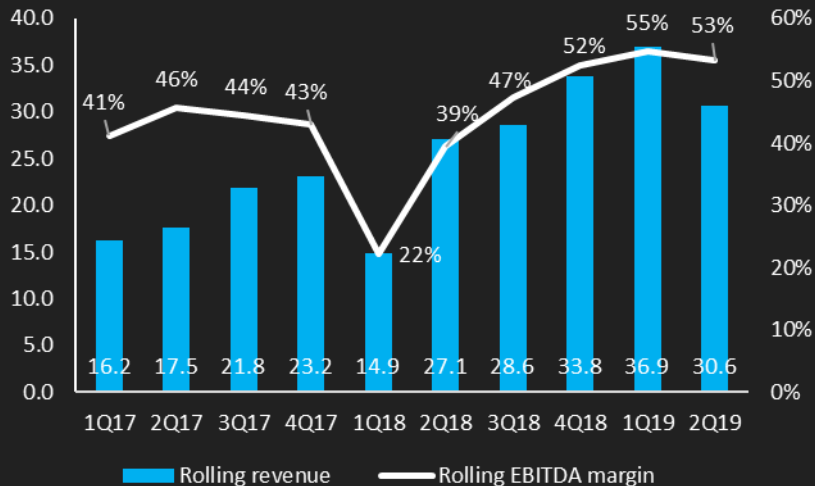
- Strong and growing cash position and no debt

Note: Debt is face value interest bearing debt excluding IFRS 16 real estate rental effect



HIGH EBITDA MARGINS OVER TIME

12mth rolling revenue (MUSD) and EBITDA margin



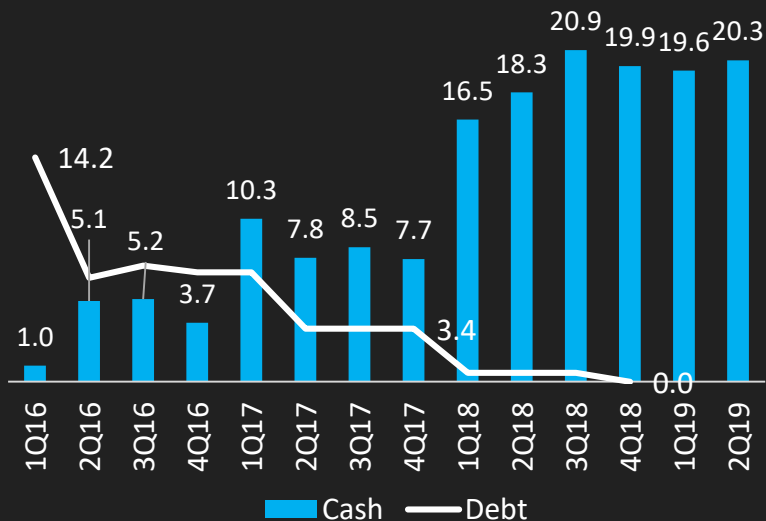
53% Rolling EBITDA margin for 12 mths after full Conan Exiles Launch in 2Q18

Stable high margins encouraging sign of multi-launch strategy and Games as a service business model

Note: Rolling revenue is sum last 12 months, rolling EBITDA margin is EBITDA margin for the last twelve months

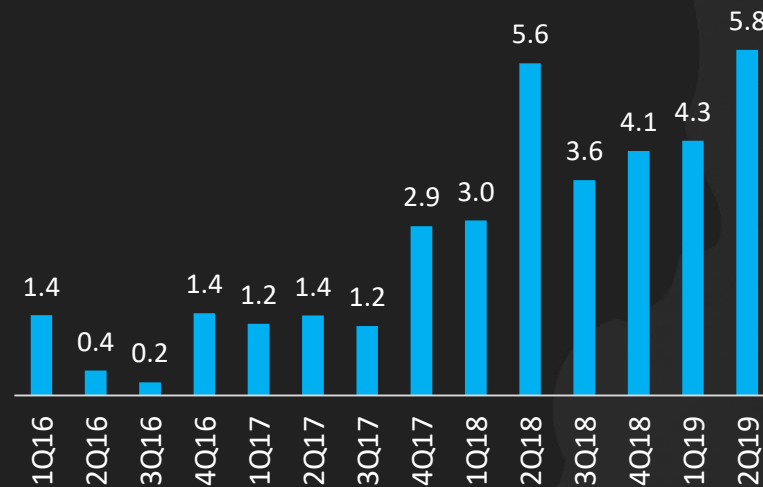
STABLE CASH POSITION WITH GROWING INVESTMENTS

Cash and debt (MUSD)



- Stable cash position

Investments (MUSD)



- Growing investments

Note: Debt is face value of interest-bearing debt

Investments is investments in intangible assets and equipment in the relevant quarter, dominated by game development.



GAME ACTIVITIES



GAME ACTIVITIES AND PIPELINE



GAME ACTIVITIES IN THE PERIOD (1)



GENRE: MMORPG
BUSINESS MODEL: Free-to-Play,
Game as a Service
DEVELOPER: Funcom
PLATFORMS: PC
Q2 ACTIVITIES: Anniversary and
Community events



GENRE: Survival Strategy
IP: Conan The Barbarian
BUSINESS MODEL: Premium
DEVELOPER: Petroglyph
PLATFORMS: PC
Q2 ACTIVITY: Release 29 May
FUTURE ACTIVITIES: Free
update + Repackaging



GENRE: Tactical Adventure
IP: Mutant: Year Zero
BUSINESS MODEL: Premium + DLC
DEVELOPER: The Bearded Ladies
PLATFORMS: PC, XBONE, PS4,
Switch
Q2 ACTIVITIES: DLC presale
After Q2: DLC, Switch and retail
release (30 July)

GAME ACTIVITIES IN THE PERIOD (2) – CONAN EXILES



GENRE:

**OPEN WORLD
MULTIPLAYER**

IP:

**CONAN THE
BARBARIAN**

Q2 ACTIVITIES:

*"Turan" & "Riddle of
Steel" DLCs*
Free Weekend & PS+

3 NEW DLCs IN 2019:

*"Blood & Sand"
"Debaucheries of Derketo"
"Riders of Hyboria"*

DEVELOPER:

FUNCOM OSLO

BUSINESS MODEL:

PREMIUM + DLC

NEW GAME – DUNE OPEN-WORLD

GENRE:

**OPEN WORLD
MULTIPLAYER**

IP:

Frank Herbert's
DUNE

**DEVELOPMENT
STAGE:**

PRE-PRODUCTION

TIMELINE:

TBA

DEVELOPER:

FUNCOM OSLO

BUSINESS MODEL:

**PREMIUM
Game as a Service**

NEW GAME – CO-OP SHOOTER

CUSTOMIZATION

MATCHMAKING

PROGRESSION

GENRE:

MULTIPLAYER
CO-OP SHOOTER

IP:

MUTANT
CHRONICLES

DEVELOPMENT
STAGE:

PRODUCTION

TIMELINE:

2020

DEVELOPER:

FUNCOM INC

BUSINESS MODEL:

PREMIUM
Game as a Service



PUBLISHING AND OTHER GAMES



MOONS OF MADNESS

GENRE: Single-player horror/puzzle

PLATFORMS : PC - XBOX ONE – PS4

RELEASE : Halloween 2019

STATUS : In Production



GENRE: Single & Multiplayer “Rogue-like”

PLATFORMS : PC – XBONE – PS4 - Switch

RELEASE : Q1 2020

STATUS : In Production



+2 Unannounced
publishing projects

12 active projects in total: 6 new + 6 existing game projects



INTERNAL GAME DEVELOPMENT PRIORITIZATION





- Conan Exiles shows strong games as a service performance and active support and development will continue
- The Open-world survival segment has very large reach and with our Dune open world game we are applying learnings from Conan Exiles to make an even better and broader reaching game
- We still believe in the Conan single player game but right now Conan Exiles and Dune represent the biggest potential. As such, the single player game is temporarily put on hold
- The Co-op shooter continues to have the focus of the US studio as we consider that segment of online games to have potential for the Company going forward



STRATEGY



FUNCOM STRATEGY

	ADDITIONS PER YEAR	INVESTMENT SIZE	MARGIN	STRATEGIC VALUE	 BIZ MODEL Premium with additional monetization
INTELLECTUAL PROPERTY LICENSES	+1 - 4	VERY LOW	VERY HIGH	<ul style="list-style-type: none">• IP control• Value creation by IP development• Additional revenue sources	 DEVELOPMENT TIME 1 to 2 years of Full production
NEW PUBLISHING GAMES	+2 - 3	LOW-MID	MEDIUM	<ul style="list-style-type: none">• Frequent releases• Low fixed employee cost impact• Finding long term partners	 GLOBAL DISTRIBUTION NA and Europe: direct Other regions: with partners
NEW INTERNALLY DEVELOPED GAMES	+1	MID-LARGE	HIGH	<ul style="list-style-type: none">• Large upside• Build and leverage competitive advantages	 PLATFORMS For IP licenses: All For Publishing: PC, Xbox One, PlayStation 4, Switch
GAMES IN OPERATION & BACK CATALOGUE	+3	VERY LOW	HIGH	<ul style="list-style-type: none">• Baseline cash contribution• IP Value maintenance• Strengthen community	

EGM has approved converting Funcom NV to SE company (societas europaea)

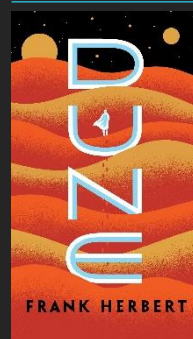
DUNE STRENGTHENING REACH TO A BROAD SET OF IPs

JOINT OPERATION



CONAN and 10+ lesser known IPs

EXCLUSIVE 6YR LICENSE

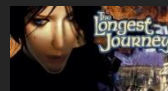


FULLY OWNED IP

SECRET WORLD



The Longest Journey



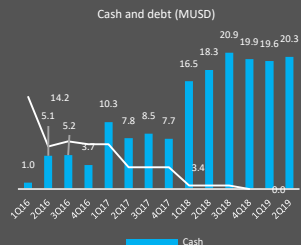
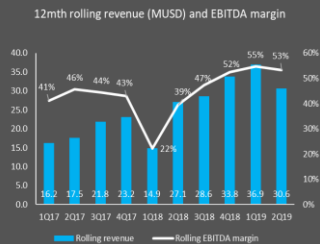
Anarchy Online



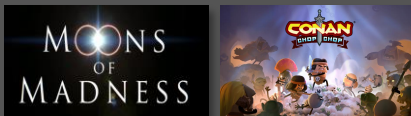


SUMMARY AND OUTLOOK

SOLID FINANCIALS



BROADENING PORTFOLIO



STRONG IPs FOR GAMES



JOIN US ON OUR JOURNEY!

QUESTIONS?



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youtube.com/Funcom



www.funcom.com



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