



Q2-2010

SUMMARY

- Revenues for the second quarter of 2010 (Q210) were 5,604 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was 1,644 TUSD.
- The first Expansion Pack for *Age of Conan*, *Rise of the Godslayer*, was launched on May 11. The expansion pack received excellent reviews from press around the world. The launch resulted in a significant increase in players, playtime and customers.
- *Age of Conan* was launched (open beta) in Korea on May 20 by Neowiz, Funcom's Korean partner. Monetization was implemented in July.
- The Company arranged its second major PR-event for *The Secret World* showing in-game footage to the world press at Games Convention (GC) in Cologne in August. The embargo from these demonstrations will be lifted on August 27.
- The company is planning to launch the online multiplayer game *Bloodline Champions* during Q4. The business model will be based on a combination of client sales and in-game transactions.
- *Pets vs Monsters* reached the third phase of beta testing in Q3 and the company expects to start monetizing the project in Q4.

FINANCIALS Q2 2010

- Revenues for Q210 were 5,604 TUSD, which is up from 3,835 TUSD for the first quarter of 2010 (Q110), due to the launch of the first expansion pack for *Age of Conan*.
- EBITDA was 1,644 TUSD compared to -737 TUSD for Q110.
- Operating profit (EBIT) was 562 TUSD in Q210 compared to -1,673 TUSD in Q110.
- Profit for the period was 253 TUSD compared to -1,507 TUSD for Q110.
- The Company's financial position remains strong, with 19,236 TUSD in cash as of 30 June 2010 and an equity ratio of 87 %.

LARGE SCALE MMOs

Age of Conan highlights

- *Rise of the Godslayer* was released as planned on May 11, 2010. There were no major technical issues with the launch. The expansion pack has received excellent feedback from press and players and has re-enforced Funcom's position as one of a handful of high-quality large scale MMO-developers in the western world.
- The launch of *Rise of the Godslayer* led to a significant increase in players, playtime and customers in *Age of Conan*. Over the summer, these parameters have decreased somewhat as

expected following the release. However, more content, more long-term goals and over-time benefits in the game should hopefully also lead to lower churn over time.

- *Age of Conan* was launched in Korea during Q2 and monetization was initiated in Q3. Neowiz operates the game in Korea and pays a royalty to Funcom on net revenues from the product. Investors can contact Neowiz for further information on the game's performance in Korea

The Secret World highlights

- The development of *The Secret World*, Funcom's next large scale MMO, progressed well during Q2 and the development team has been expanded and strengthened by the transfer of additional senior resources from *Age of Conan*.
- Funcom conducted a major press event for *The Secret World* at GC in Cologne in August. The focus was on the initial 60 minutes of the game, showing extensive in-game footage from this section of the game. The embargo on coverage from these press-showings will be lifted on August 27.
- The Company expects to sign a publishing or distribution agreement with a retail publishing partner for *The Secret World* within the next 6 months.

FREE-TO-PLAY MMOs

- Funcom plans to publish *Bloodline Champions* (BLC) during H2-10. The game is an online multiplayer action role playing game. The game is currently in the late stages of beta-testing. The game is being developed by Stunlock Studios AB. Funcom owns 42 % of the shares in Stunlock Studios AB and has a publishing agreement for BLC.
- At GC, the Company arranged hands-on demos of the upcoming *Bloodline Champions* for players and worldwide press. The Company considers feedback and interest in the game to be favorable.
- The Company is conducting its third round of beta-testing for its first free-to-play MMO, *Pets vs Monsters*, during Q3. During this phase, the focus is on improving the installation process and retention mechanics of the game and testing the membership-sign-up process. Monetization of the game will commence during Q4 and is planned as a gradual ramp up to ensure favorable metrics before significant marketing spend.
- The Company has continued its work on several early stage free-to-play MMOs, prototyping and testing several game concepts, including social games tailored for Facebook.

OTHER HIGHLIGHTS

Market update

- World of Warcraft remains the major game in the Western World, with millions of customers
- Aion, launched in the West in 2009, is performing well, as are several free-to play MMOs
- There is a relatively limited number of new large scale MMOs slated for launch in the upcoming years
- Asian markets and developing markets experience significant growth in online gaming
- There is continued growth in the online gaming market in the Western World
- More large scale MMOs develop their business models towards hybrid subscription/item sales models

Transactions with related parties

There have been no significant transactions with related parties in 2010.

Risk factors

For information regarding risk factors for the Company and its games, please refer to note 29 in the 2009 annual report.

Outlook

- During Q210, the monthly cash expenditure for hosting services and game-servers was reduced by around 400 TUSD as server leasing and hosting contracts related to *Age of Conan* and *Anarchy Online* came up for renegotiation.
- The Company's revenues in Q310 are expected to be lower than in Q210, due to the revenues related to the expansion pack for *Age of Conan* in Q210.
- The Company is continuing to focus on reducing cash expenditures. The initiatives implemented are expected to have an impact on cash expenditures

mainly for investment activities going forward. Close to a hundred employees are now working in the studio in Canada. During Q210 Funcom established a joint venture in Canada for research and development.

- The Company has a defined investment program, including continued investments in *Age of Conan* and new MMOs. With current cost, revenue, partnership and timeline assumptions, the Company considers its financial resources to be sufficient to develop and launch its current portfolio of products.

Zürich, 26 August, 2010

The Management Board of Funcom N.V.

This report is also available at <http://www.newsweb.no>

Investors are encouraged to seek information regarding the company and the industry.

- *For more information about Funcom, its games, its organization, please see www.funcom.com*
- *For more information about the Age of Conan game, please see www.ageofconan.com*
- *For more information about The Secret World game, please see www.darkdaysarecoming.com*
- *For more information about the Anarchy Online game, please see www.anarchy-online.com*
- *For more information about the Pets vs Monsters game, please see www.petsvsmonsters.com*
- *For more information about the Bloodline Champions game, please see www.bloodlinechampions.com*

FUNCOM N.V. - HALF YEAR FINANCIALS OF 2010
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Second quarter		Accumulated		Full Year
	2010	2009	2010	2009	2009
<i>(Figures in TUSD)</i>					
Revenue	5 604	6 145	9 439	13 870	23 876
Operating expenses	-3 960	-5 397	-8 531	-10 224	-19 751
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	1 644	748	907	3 647	4 125
Depreciation, amortization and impairment charges	-1 082	-1 477	-2 018	-2 936	-14 923
Total operating expenses	-5 042	-6 874	-10 550	-13 160	-34 674
Operating result ("EBIT") from continuing operations	562	-728	-1 111	711	-10 798
Share of result from equity accounted entities					
Net financial items	-277	661	-81	806	2 718
Profit (loss) before income taxes from continuing operations	284	-67	-1 192	1 517	-8 080
Income taxes	-32	-169	-62	-286	-406
Profit (loss) from continuing operations	253	-236	-1 254	1 231	-8 486
Profit from discontinued operation, net of tax	0		0		
Profit (loss) for the period	253	-236	-1 254	1 231	-8 486
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	253	-236	-1 254	1 231	-8 486
Earnings per share basic (USD)	0,00	0,00	-0,02	0,02	-0,16
Earnings per share fully diluted (USD)	0,00	0,00	-0,02	0,02	-0,16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	253	-236	-1 254	1 231	-8 486
Foreign exchange translation difference	-641	845	-939	1 864	2 700
Other	242	0	242	0	60
Total comprehensive income for the period	-147	609	-1 951	3 096	-5 726
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-147	609	-1 951	3 096	-5 726

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June		31 Dec.	
<i>(Figures in TUSD)</i>	2010	2009	2010	2009
ASSETS				
<u>Non-current assets</u>				
Deferred tax assets			268	300
Intangible assets			36 195	32 667
Tangible fixed assets			1 121	1 530
Financial investments			778	459
<u>Current assets</u>				
Trade receivables			1 254	2 044
Prepayments and other receivables			989	1 695
Cash and cash equivalents			19 236	37 117
Total assets			59 841	75 812
EQUITY AND LIABILITIES				
<u>Equity</u>				
Share capital			2 737	2 719
Reserves			123 955	123 113
Retained earnings			-74 872	-64 072
<u>Liabilities</u>				
Deferred tax liabilities			27	50
Long-term liabilities				
Short-term liabilities			7 994	14 002
Total equity and liabilities			59 841	75 812

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Second quarter		Period ended 30 June		Full Year
	2010	2009	2010	2009	2009
<i>(Figures in TUSD)</i>					
Cash flow from operating activities	211	120	-826	4 585	7 849
Cash flow from investing activities	-4 498	-3 672	-8 369	-7 725	-17 090
Cash flow from financing activities	-83	-620	-602	-1 387	-2 187
Change in cash and cash equivalents	-4 371	-4 172	-9 798	-4 528	-11 428
Cash and cash equivalents, beginning of period	25 264	39 636	30 948	39 396	39 396
Effect of exchange rate fluctuations on cash held	-1 657	1 652	-1 914	2 249	2 980
Cash and cash equivalents, end of period	19 236	37 117	19 236	37 117	30 948

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	30 June		Full Year	
	2010	2009	2010	2009
<i>(Figures in TUSD)</i>				
Opening balance			53 370	58 353
Total comprehensive income for the period			-1 951	3 096
Equity issues			185	0
Other			216	311
Closing balance			51 820	61 760

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 games in the broadest sense. The unaudited interim condensed consolidated financial statements for the Company for the six months ended 30 June, 2010 were approved for issue by the Supervisory Board on 26 August, 2010.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the six months ended 30 June, 2010 have been prepared in accordance with IAS 34. This 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 2009 annual report, except for the impact of the adoption of the standards and interpretations described below.

The Group has as of 1 January, 2010 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.

All amounts are in USD'000 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. Investments in associated companies and jointly controlled entities are incorporated using the equity method.

2.2 Intangible assets

Intangible assets are recognized in the balance sheet if it can be proven that there are probable future economic benefits that can be attributed to the assets which are owned by the Company, and the assets' cost price can be reliably estimated. Intangible assets are recognized at their cost price and evaluated for impairment.

The amortization estimate and method is subject to an assessment based on the pattern of consumption of future economic benefits. Amortization of an intangible asset is normally carried out using the straight-line method over the estimated useful life. Estimated useful lives will normally not exceed five years.

2.3 Equity

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

2.4 Deferred revenues

Revenues from subscriptions are recognized over the subscription period which is from the date of subscription purchase until subscription end, normally 1 – 12 months. Up-front payments for subscriptions and other up-front revenues are recognized in the statement of financial position as a liability.

3 Operating revenues

The revenues mainly consist of sales of subscriptions and royalties from box sales.

4 Operating expenses

Personnel cost, operating cost for the Age of Conan game servers and office rent are main elements of the operating expenses.

5 Depreciation, amortization and impairment charges

The Company amortizes investment in the development of technology and game assets over their estimated useful life, i.e. the period over which future economic benefits are expected to be generated.

An impairment charge of 9,300 TUSD on the game Age of Conan was made in Q309 to reduce the book value of the game in the statement of financial position to its recoverable amount. The recoverable amount is calculated based on value in use, i.e. the present value of expected future cash flows expected to be derived from the asset. The impairment charge will affect future amortizations.

Age of Conan has been impaired due to a negative development in the customer base and revised estimates for future cash flows resulting from this. We consider the main reasons for this development to be a lack of long-term affinity for the game combined with the market situation.

6 Net financial items

Net financial items mainly consist of interest earned and exchange rate differences.

7 Taxes

It is Funcom's assessment that the tax value of the tax losses carried forward can only be partially recognized under IAS 12. The recognized deferred tax asset is based on an assessment of the tax losses carried forward and the temporary differences arising between the accounting values and the tax bases of assets. All tax assets are primarily denominated in Swiss Francs.

8 Financial investments

Financial items consist of long term receivables and investments in the associated company Stunlock Studios AB, Sweden and the jointly controlled entity MMORPG Technologies INC, Canada. Both these companies were incorporated during Q2 2010.

9 Cash flows

A significant part of Funcom's cash and cash equivalents are denominated in Norwegian kroner and Canadian dollar. The Company's NOK and CAD cash holdings are a natural hedge against the expectedly large proportion of future operating expenses arising in NOK and CAD.

10 Average numbers of shares

	Second quarter		Half year		Full year
	2010	2009	2010	2009	2009
Average number of shares (1000)	52 983	52 832	52 908	52 832	52 832

11 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 maker in order to allocate resources to the segment and to assess its performance. The reportable operating segments of the group are defined as:

- large-scale MMOs - like Age of Conan and The Secret World
- free-to-play MMO games – which includes the games under the Company's free-to-play game initiative

Segment information

	Revenue from external customers		Segment profit *)	
	Period ended		Period ended	
	30 June 2010	30 June 2009	30 June 2010	30 June 2009
Large-scale MMO's	9 243	13 781	4 069	7 600
Free-to-play MMO games			-28	
Unallocated	196	89	169	89
Total	9 439	13 870	4 210	7 689
General and administrative expenses			-3 303	-4 043
Depreciation, amortization and impairment charges			-2 018	-2 936
Net financial items			-81	806
Profit (loss) before tax (from continuing operations)			-1 192	1 517

*) Segment profit 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.

	Large-scale MMO's	Free-to-play MMO's
Segment assets as at 31 December 2009	28 112	2 219
Segment assets as at 30 June 2010	32 426	2 998

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

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), confirm that to the best of their knowledge:

The Consolidated Interim Financial Statements for the six months ended 30 June, 2010 give a true and fair view of the assets, liabilities, financial position and profit or loss of Funcom N.V. and its consolidated companies, and

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

- the position of Funcom N.V. and its consolidated companies as at 30 June, 2010,
- the development and performance of the business during the first six months of the financial year of Funcom N.V. and its consolidated companies, and
- the expected development and performance of the business, provided that the interests of Funcom N.V. and its consolidated companies are not harmed by disclosure, with particular attention for the investments, and the circumstances of which the development of revenues and profitability are dependent.

Zürich, 26 August, 2010

The Management Board of Funcom N.V.

Pieter van Tol (member of the board)

Trond A. Aas (member of the board and CEO)