



1Q-2012

HIGHLIGHTS

- Funcom has secured a standby equity facility of up to USD 22 million. The facility ensures financial flexibility for Funcom, and can be drawn-down in tranches at the company's discretion. This enables Funcom to rapidly increase the marketing spend for *The Secret World* and *Fashion Week Live*, if this is deemed to be beneficial for the products.
- The launch date of *The Secret World* has been adjusted by 2 weeks for market reasons. Early access for the game has been set to 29 June and full commercial launch to 3 July.
- Funcom has conducted two large open beta weekend events with external media partners for *TSW*. Funcom is very satisfied with the performance of the infrastructure technology during these tests. The tests have reduced the technical risks associated with the launch of *TSW*.
- The indicators for fun factor and retention in the game are positive, based on the beta-programs. Login numbers among eligible players, playtime and return visits are all significantly higher than for *Age of Conan*.
- Currently well over 1 million gamers have signed up for the beta programs of *The Secret World* and the number is increasing rapidly. Awareness for *The Secret World* among MMO-gamers is high. Rating and purchase intent among aware consumers is high. Pre-orders are developing in line with expectations.
- A large number of press previews from press across the world have been published, with positive feedback centering on setting, story, graphics, content, dungeons and innovative role-play system.
- Marketing for *TSW* will expand significantly in the upcoming weeks towards launch, to further increase awareness and expectation for the game.
- *Fashion Week Live* was launched in Open Beta. Early indicators on engagement, monetization and retention are positive. In the next few weeks, marketing for the product will increase, while the team also focuses on fine-tuning the game.
- Revenues in 1Q12 were 2,293 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) were -4,512 TUSD.

FINANCIALS

- 8,700 TUSD of the 15,000 TUSD convertible bonds have currently been converted into shares in Funcom N.V. significantly reducing interest-bearing debt. The Bonds are convertible into common shares of the Company and have an annual coupon of 10.00 percent payable semi-annually. The initial conversion price is USD 1.37, and is subject to customary adjustment provisions. The Bonds will, unless previously redeemed, converted or

purchased and cancelled, mature on 22 December 2014.

- Revenues in 1Q12 were 2,293 TUSD, compared to 3,389 TUSD in 1Q11.
- EBITDA was -4,512 TUSD in 1Q12 compared to -1,117 TUSD for 1Q11.
- Operating profit (EBIT) was -5,830 TUSD for 1Q12 compared to -2,496 TUSD for 1Q11.
- Profit for the period was -6,143 TUSD compared to -4,063 TUSD for 1Q11.
- The financial results of the Company are significantly impacted by large build-up costs and marketing costs for *The Secret World* as the game is approaching launch and lower revenues from *Age of Conan* due to launch of a competitor in 4Q.
- By end 1Q12 the equity ratio was 62 %, and the Company had 12,234 TUSD in cash.
- For more information regarding the equity facility, please see relevant press release from the Company.

LARGE SCALE MMOs

The Secret World (TSW)

- For market reasons, the launch date of *TSW* has been adjusted by 2 weeks, with early access starting on 29 June and full commercial launch on 3 July.
- The development of *TSW* progressed well during 1Q and 2Q. The game is now in the final stages of development, preparing for launch. The key focus of the remaining development is on polish, bug-fixing, stress testing and optimization.
- Funcom currently complements its ongoing closed beta program with significant open beta events to stress-test technology and to further build awareness and expectations for the game. Funcom conducted a broad open beta event in partnership with Gamespot, the world's premier gaming site, and among their users *The Secret World* currently tracks as the most followed MMO in development.
- Beta sign-up numbers and community engagement continued to grow during 1Q and 2Q. More than 250,000 players engaged in *The Secret War*, a social media game related to *TSW*. Currently well over one million gamers are registered for *The Secret World* Beta and the number grows rapidly. Indicators on pre-order numbers are in line with expectations and the uptake of additional item packs is very positive.
- Funcom considers the player feedback both from the closed beta events and the open beta events to be positive. Login numbers among eligible players, playtime and return visits are significantly higher than for *Age of Conan*. These are positive indicators of the retention capacity of *TSW*.

- *The Secret World* has received a broad set of press previews in the last few weeks, and Funcom encourages investors to read and evaluate the feedback given in the previews as part of assessing the potential of *TSW*.

Age of Conan

- Player numbers and revenues of *Age of Conan* were affected more negatively than expected by the launch of a major competitor in 4Q. However, revenues and player numbers now seem to have stabilized.
- *Age of Conan* is cash flow positive and will remain so in the foreseeable future.
- The focus of the development of the game is to add new features and content for the player base to extend player engagement time.

FREE-TO-PLAY MMOs

Fashion Week Live was launched in Open Beta. The focus of the team is currently on measuring monetization, retention and virality as well as ironing out technical issues. Early indicators on engagement, retention and monetization are encouraging. Over the next few weeks, the marketing efforts for the game will gradually be expanded. Several key partnerships with prominent fashion labels and designers will be introduced to the game. It will reinforce *FWL*'s unique positioning of authenticity, increase the awareness and the monetization potential of the game.

MISCELLANEOUS

Transactions with related parties

There have been no significant transactions with related parties in 2012.

Risk factors

For information regarding risk factors for the Company and its games, please refer to note 28 in the 2011 annual report. For evaluations of the risks related to the launch of *The Secret World*, Funcom encourages investors to seek information about the industry in general and Funcom in specific from analyst reports,

industry reports, game pre-views etc. Several different financial scenarios should be evaluated when analyzing the potential of *The Secret World*, as done by financial analysts. The financial performance of new games is uncertain. The Company re-iterates its financial target for the financial performance of *TSW*. Achieving such a target necessitates consistent, positive press reviews and positive gamer word of mouth so that the very high interest in the beta-programs translates to sales and solid retention.

Outlook

- The medium term financial performance of Funcom is influenced by a number of factors. The reception and performance of *The Secret World* and *Fashion Week Live* is considered the most significant. Funcom is currently making large investments into new game concepts, primarily *Fashion Week Live* and *The Secret World*, and expects negative cash flow until the launch of these game concepts.
- The Company considers its financial resources to be sufficient to complete and launch both *Fashion Week Live* and *The Secret World*.

Badhoevedorp, The Netherlands, 24 May 2012

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.theseecretworld.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
- For more information about *Fashion Week Live*, please see www.fashionweeklive.com

FUNCOM N.V. - FIRST QUARTER FINANCIALS OF 2012
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(Figures in TUSD)</i>	First Quarter		Accumulated		Full Year
	2012	2011	2012	2011	2011
Revenue	2 293	3 389	2 293	3 389	15 519
Operating expenses	-6 805	-4 506	-6 805	-4 506	-21 002
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-4 512	-1 117	-4 512	-1 117	-5 482
Depreciation, amortization and impairment charges	-1 318	-1 380	-1 318	-1 380	-7 829
Total operating expenses	-8 123	-5 885	-8 123	-5 885	-28 831
Operating result ("EBIT") from continuing operations	-5 830	-2 496	-5 830	-2 496	-13 312
Share of result from equity-accounted entities	34	0	34	0	-17
Net financial items	-283	-1 567	-283	-1 567	-2 882
Profit (loss) before income taxes from continuing operations	-6 079	-4 063	-6 079	-4 063	-16 210
Income taxes	-64	0	-64	0	-85
Profit (loss) from continuing operations	-6 143	-4 063	-6 143	-4 063	-16 295
Profit from discontinued operation, net of tax	0	0	0	0	0
Profit (loss) for the period	-6 143	-4 063	-6 143	-4 063	-16 295
Attributable to shareholders of Funcom N.V.	-6 143	-4 063	-6 143	-4 063	-16 295
Earnings per share basic (USD)	-0,10	-0,08	-0,10	-0,08	-0,30
Earnings per share fully diluted (USD)	-0,10	-0,08	-0,10	-0,08	-0,30

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-6 143	-4 063	-6 143	-4 063	-16 295
Foreign exchange translation difference	-90	276	-90	276	520
Other	0	0	0	0	13
Total comprehensive income for the period	-6 234	-3 787	-6 234	-3 787	-15 762

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(Figures in TUSD)</i>	31 March		31 Dec.
	2012	2011	2011
ASSETS			
Non-current assets			
Deferred tax assets		553	329
Intangible assets	52 583	44 204	49 879
Tangible fixed assets	2 055	1 846	2 016
Financial investments	931	957	921
Current assets			
Trade receivables	643	1 309	1 353
Prepayments and other receivables	4 947	2 652	4 173
Cash and cash equivalents	12 234	17 142	19 428
Total assets	73 947	68 439	78 327
EQUITY AND LIABILITIES			
Equity			
Share capital	3 141	2 755	2 777
Reserves	137 060	122 794	129 306
Retained earnings	-94 708	-75 196	-89 165
Liabilities			
Deferred tax liabilities	299	10	297
Long-term liabilities	14 671	11 610	22 104
Short-term liabilities	13 483	6 466	13 008
Total equity and liabilities	73 947	68 439	78 327

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Figures in TUSD)</i>	First Quarter		Period ended 31 March		Full Year
	2012	2011	2012	2011	2011
Cash flow from operating activities					
Profit (loss) before income tax	-6 079	-4 063	-6 079	-4 063	-16 210
Adjustments for:					
Depreciation, amortization and impairment	1 318	1 380	1 318	1 380	7 829
Share-based payments	223	134	223	134	703
Share of result from equity-accounted entities	34		34		17
Effect of exchange rate fluctuations	-282	-570	-282	-570	359
Changes in working capital	1 188	1 076	1 188	1 076	916
Net cash from operating activities	-3 598	-2 044	-3 598	-2 044	-6 386
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-4 313	-3 435	-4 313	-3 435	-18 361
Investment in/loan to (from) equity-accounted entities	-141	82	-141	82	110
Net cash from financing activities	-4 454	-3 352	-4 454	-3 352	-18 251
Cash flow from financing activities					
Net proceeds from issue of share capital	744	100	744	100	480
Proceeds from borrowings					21 162
Net cash from financing activities	744	100	744	100	21 643
Change in cash and cash equivalents	-7 308	-5 297	-7 308	-5 297	-2 995
Cash and cash equivalents, beginning of period	19 428	22 693	19 428	22 693	22 693
Effect of exchange rate fluctuations	114	-254	114	-254	-270
Cash and cash equivalents, end of period	12 234	17 142	12 234	17 142	19 428

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(Figures in TUSD)</i>	31 March		Full Year
	2012	2011	2011
Opening balance	42 918	53 806	53 806
Total comprehensive income for the period	-6 234	-3 787	-15 762
Equity issues	9 531	201	480
Reclassification of warrants from liabilities to equity			1 850
Conversion rights reserve	-945		1 840
Share-based payments	223	134	703
Closing balance	45 494	50 353	42 918

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 three months ended 31 March 2012 were approved for issue by the Supervisory Board on 24 May 2012.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the three months ended 31 March 2012 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 2011 annual report.

The Group has as of 1 January 2012 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 evaluated the impact on the financial statements of standards issued but which have an adoption date on 1 January 2013 or later.

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. Funcom points are credits that are either sold separately to the customer or awarded as an incentive or as compensation. Funcom recognizes revenues related to sale of points on a straight-line basis over the estimated average subscription period. 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, in-game items and royalties.

4 Operating expenses

Personnel cost, marketing, office rent and operating cost for the Age of Conan game 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.

6 Net financial items

Net financial items mainly consist of interest earned, exchange rate differences, interest accrued on loans and gains/losses from investments in associated companies and jointly controlled entities.

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. The 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.

9 Liabilities

Long-term liabilities consist of 9,454 TUSD interest-bearing loan from Stelt Holding N.V., 5,026 TUSD convertible bonds and 191 TUSD non-interest bearing reimbursable government contribution.

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of 100 TUSD (total 15,000 TUSD) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. The interest is payable semi-annually starting 22 June 2012. It was determined that the convertible bonds represent a compound financial instrument in accordance with IAS 32. Funcom recognized a liability of 12,572 TUSD in the Statement of Financial Position. This is the fair value of the liability, applying an interest rate (discount rate) of a similar liability that does not have a conversion feature. An equity component of 1,840 TUSD was also recognized in the Statement of Financial Position as a residual amount after deducting the fair value of the financial liability from the proceeds from the bonds as a whole. The liability is subsequently measured at amortized cost.

77 bonds were converted into 5,620,384 common shares by the end 1Q12 which resulted in an increase of 8,645 TUSD to the share premium reserve and a decrease of 945 TUSD of the conversion rights reserve, reflected in the consolidated statement of changes in equity.

The carrying value of interest-bearing debt at the end of 1Q12 amounts to approximately 21,808 TUSD.

10 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.

Funcom is required to maintain a deposit of USD 2.5 million with a Canadian bank for the use of one of the credit facilities with a fair market value of USD 6 million.

11 Average numbers of shares

	First quarter		Three months		Full year
	2012	2011	2012	2011	2011
Average number of shares (1000)	56 889	53 255	56 889	53 255	53 561

12 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 Anarchy Online
- 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 (loss) *)	
	Period ended		Period ended	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
Large-scale MMOs	1,990	2,834	-1,079	828
Free-to-play MMO games	303	555	-61	63
Unallocated				
Total	2,293	3,389	-1,140	891
General and administrative expenses			-3,373	-2,008
Depreciation, amortization and impairment charges			-1,318	-1,380
Share of result from equity-accounted entities			34	
Net financial items			-283	-1,567
Profit (loss) before tax (from continuing operations)			-6,079	-4,063

*) 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.

	Large-scale MMO's	Free-to-play MMO's
Segment assets as at 31 March 2011	39,962	3,940
Segment assets as at 31 March 2012	49,284	3,062

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