



Q2-2006

FUNCOM N.V. – SECOND QUARTER FINANCIALS OF 2006

PRELIMINARY . NOT AUDITED . FIGURES

Highlights in Q2

- Age of Conan wins best MMO at the E3 exhibition from Gamespot, Gamespy, IGN and Yahoo games
- Funcom signs co-publishing agreement with SCi/Eidos for Age of Conan
- Funcom signs agreement with Microsoft where Age of Conan is to be one of Microsoft's showcase games for the Vista operating system
- Funcom extends agreement for the Conan property for all MMOs until 2023. Warner Brothers also announces time target for production start for new Conan movie
- Age of Conan goes into first stages of Beta testing
- Dreamfall is launched receiving numerous highly positive reviews
- Anarchy Online continues to perform better than expected due to stable customer numbers and increased in-game advertisement

Financials

Funcom's revenues in the second quarter have increased significantly due to the launch of the Dreamfall game. In Q2 2006 Funcom had revenues of TUSD 4,611 compared to TUSD 1,055 in Q2 2005 (excluding Plutolife revenues on a pro forma basis). The company had an operating profit (EBIT) for the quarter of TUSD -1,221 compared to TUSD -334 in Q2 2005 (excluding Plutolife on a pro forma basis). The positive revenue development is due to the initial sales of Dreamfall and guarantees from Funcom's publishing partners, in addition to continued positive development for Anarchy Online. AO continues to see increased advertisement revenues while the subscriber level in the game remains stable. The lower EBIT is primarily due to expenditures related to the Age of Conan game and the E3 exhibition that were expensed. The net financial items is an unrealized exchange profit due to the high amount of cash in NOK, this gives a natural hedge for the company as most costs are in NOK. Due to this, net financial items are expected to fluctuate going forward.

The company's financial position remains very strong, and as of 30 June 2006 Funcom had TUSD 42,424 in cash and no interest bearing debt. In addition, Funcom has relatively high accounts receivables at the end of the quarter relating to outstanding payments on the initial Dreamfall sales.

The cash flow for the first half of 2006 was TUSD -1,021 from operations and TUSD -5,782 from investments. This was as anticipated.

Company & Market

Funcom has grown from 188 employees at the start of the quarter to 203 employees as of 30 June 2006. As of 26 July Funcom has 209 employees. Funcom will

continue to increase its employee base and recruit certain key-management positions, including a new CFO, as previous CFO Martin Hoff had his last day with the company 26th July 2006.

During the second quarter a number of significant milestones were reached:

- Dreamfall was launched in all key markets in North America and Europe and has received numerous favourable reviews. Initial sales are positive on the PC platform, while low on Xbox due to the current console transition. The game demonstrates Funcom's ability to deliver high-quality products, and has strengthened Funcom's relations with gaming press and industry players
- Funcom has, in the start of Q3, signed a co-publishing agreement with SCi/Eidos for Age of Conan. The agreement includes sales commitments from SCi/Eidos, which if met, will make Age of Conan a highly successful product. Funcom and SCi/Eidos have agreed to set a launch window for the game between March and May 2007
- Age of Conan was demonstrated at E3 in California, the world's largest gaming convention, and won all the key "best of" MMO awards in competition with all the other upcoming MMO games. In addition, the game has been chosen as a showcase game for Microsoft Vista and was also demonstrated at Microsoft's E3 stand
- Age of Conan reached beta in June as planned, and the internal quality assurance department in addition to selected external beta-testers have started playing the game. An open beta will be announced later
- Anarchy Online continues to perform well, with stable subscriber numbers and increasing revenues from advertisement income. The Anarchy Online team is focused on the next expansion pack, called Lost Eden.
- The Mobile division, Plutolife, which is one of the world's leading service providers within mobile dating, saw a stable development in the second quarter.

Outlook

The company expects lower revenues in the next quarter, as the second quarter included initial sales of Dreamfall and no new products will be launched in the third quarter.

***The Supervisory Board of Funcom N.V
Funcom N.V., 26 July, 2006.***

FUNCOM N.V. – SECOND QUARTER FINANCIALS OF 2006

PRELIMINARY, NOT AUDITED, FIGURES

| PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i> | Second Quarter | | Accumulated | | Full Year |
|--|----------------|--------------|---------------|--------------|---------------|
| | 2006 | 2005 | 2006 | 2005 | 2005 |
| Revenues, PC/Desktop | 4,050 | 1,055 | 5,337 | 2,155 | 4,432 |
| Revenues, Mobile | 561 | | 1,122 | | 859 |
| Total Operating Revenues | 4,611 | 1,055 | 6,459 | 2,155 | 5,291 |
| Cost of sales | -344 | -173 | -603 | -354 | -805 |
| Operating expenses | -2,644 | -999 | -4,701 | -2,040 | -4,994 |
| Depreciation and amortization | -2,844 | -217 | -3,004 | -445 | -813 |
| Total operating expenses | -5,832 | -1,389 | -8,308 | -2,839 | -6,612 |
| Earnings Before Interest and Tax ("EBIT") | -1,221 | -334 | -1,849 | -684 | -1,321 |
| Net financial items | 2,016 | 36 | 3,244 | 23 | -161 |
| Earnings Before Tax ("EBT") | 795 | -298 | 1,394 | -661 | -1,482 |
| Taxes | -73 | -10 | -79 | -18 | 6 |
| Earnings before minority interest | 722 | -308 | 1,315 | -679 | -1,476 |
| Minority interest | 10 | | 31 | | -82 |
| Earnings After Tax ("EAT") | 732 | -308 | 1,346 | -679 | -1,558 |
| Earnings per share (USD) | 0.02 | -0.01 | 0.03 | -0.03 | -0.05 |
| Earnings per share fully diluted (USD) | 0.01 | -0.01 | 0.03 | -0.03 | -0.05 |
| Average number of shares (1000) | 47,745 | 25,705 | 46,175 | 25,705 | 28,972 |
| Average number of shares fully diluted (1000) | 48,995 | 25,705 | 47,425 | 25,914 | 29,597 |

| BALANCE SHEET <i>(Figures in TUSD)</i> | 30-June | | Full Year |
|--|---------------|--------------|---------------|
| | 2006 | 2005 | 2005 |
| ASSETS | | | |
| Intangible assets | 14,554 | 7,098 | 12,235 |
| Tangible fixed assets | 809 | 402 | 538 |
| Investment in associate | | 425 | |
| Trade debtors | 2,554 | 78 | 644 |
| Prepays and other receivables | 1,232 | 568 | 513 |
| Cash and cash equivalents | 42,424 | 839 | 26,380 |
| Total assets | 61,573 | 9,410 | 40,310 |
| EQUITY & LIABILITIES | | | |
| Paid in capital | 94,214 | 44,109 | 72,116 |
| Retained earnings | -37,313 | -37,775 | -38,744 |
| Equity attributable to minority interest | 273 | | 285 |
| Long-term liabilities | 154 | | |
| Short-term liabilities | 4,245 | 3,076 | 6,653 |
| Total equity & liabilities | 61,573 | 9,410 | 40,310 |

| CASH FLOW STATEMENT <i>(Figures in TUSD)</i> | 30-June | | Full Year |
|--|---------|--------|-----------|
| | 2006 | 2005 | 2005 |
| Cash flow from operating activities | -1,021 | -511 | -15 |
| Cash flow from investment activities | -5,782 | -3,040 | -7,994 |
| Cash flow from financing activities | 19,847 | 1,500 | 31,744 |
| Change in cash and cash equivalents | 13,044 | -2,052 | 23,735 |
| Cash and cash equivalent, beginning of period | 26,380 | 2,920 | 2,920 |
| Effect of exchange rate fluctuations on cash held | 3,000 | -29 | -275 |
| Cash and cash equivalent, end of period | 42,424 | 839 | 26,380 |

| EQUITY <i>(Figures in TUSD)</i> | 30-June | | Full Year |
|--|---------|-------|-----------|
| | 2006 | 2005 | 2005 |
| Opening balance | 33,657 | 7,087 | 7,087 |
| Net profit/loss attributable to the parent company | 1,346 | -679 | -1,558 |
| Equity issues | 21,958 | | 28,026 |
| Changes in minority interest | -12 | | 285 |
| Other | 225 | -74 | -183 |
| Closing balance | 57,174 | 6,334 | 33,657 |

| INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i> | Q2 ⁹ | Q3 ⁹ | Q4 | Q1 | Q2 |
|--|-----------------|-----------------|--------|--------|---------|
| | 2005 | 2005 | 2005 | 2006 | 2006 |
| Revenues, PC/Desktop | 1,055 | 1,111 | 1,167 | 1,287 | 4,050 |
| Revenues, Mobile | 637 | 612 | 859 | 561 | 561 |
| Total operating revenues | 1,692 | 1,723 | 2,026 | 1,848 | 4,611 |
| Sales growth quarter by quarter (%) | 0.3 % | 1.8 % | 17.6 % | -8.8 % | 149.6 % |
| EBIT PC/Desktop | -334 | -373 | -346 | -566 | -1,110 |
| EBIT Mobile | 81 | 193 | 82 | -64 | -88 |
| EBIT Total | -253 | -180 | -264 | -630 | -1,221 |
| Pre-tax earnings per share (USD) | -0.01 | -0.01 | -0.02 | 0.01 | 0.02 |
| Pre-tax earnings per share (USD) fully diluted | -0.01 | -0.01 | -0.02 | 0.01 | 0.01 |

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 principle activity of the company is to develop and market computer games. The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2006 were approved for issue by the supervisory board on 26 July 2006, after the close of the stock exchange.

2. Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2006 have been prepared in accordance with IFRS/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 to the ones used in the 2005 annual report and we refer to this report for further details on applied accounting principles.

2.1. Basis of consolidation

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

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

2.3. Equity

Transaction costs relating to an equity transaction are recognized directly in equity after deducting tax expenses.

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 revenues are recognized in the balance sheet as a liability.

3. Operating revenues

From April 2006 revenues include sales-revenues from Dreamfall, and in the second quarter TUSD 2,640 were recognized as Dreamfall revenue.

4. Operating expenses

The increase in operating expenses is related to the E3 show in May 2006. In addition there is a general cost increase due to a build up of the organization prior to the launch of Age of Conan.

5. Depreciation and amortization

Compared to Q2 2005, the amortization time of Anarchy Online expansion packs has been prolonged due to a longer anticipated economic lifespan. The effect on the Profit and Loss statement is TUSD 60. From April 2006 amortization related to Dreamfall is included, and depreciation of Dreamfall in Q2 2006 has been set equal to the revenues recognized.

6. Net financial items

A favourable change in currency rates when compared to USD, the functional currency of the Group, has caused large unrealized exchange profits. Most of the Group's cash is denominated in Norwegian kroner, and because of this the net financial items is expected to fluctuate going forward.

7. Trade debtors

Increase in trade debtors is due to revenues from Dreamfall and advertising revenues.

8. Figures for comparison

From Q4 2005 Plutolife was fully consolidated, the reported figures for Q2 2005 are therefore not comparable to Q2 2006. See the Interim Segment Results for comparable key figures.

9. Interim results

Funcom N.V. effectively acquired the majority in Plutolife AS on October 1st 2005. Interim sales and EBIT figures in Q2 and Q3 2005 are pro-forma. Results from Q4 2005 are presented as fully consolidated.

10. Earnings per share

Historic number of shares applied in the earnings per share calculation has been adjusted to reflect the 1:25 split, which took place in 2005 in connection with the IPO, and subsequent share issues, calculated on a fully-diluted average number of shares for the period.

11. Cash flow

The negative cash flow from operating activities is mainly related to an increase in trade debtors see note 7 and various prepayments.

During the first quarter, Funcom N.V. issued new shares first in respect of the green-shoe option from the Initial Public Offering with gross proceeds of MUSD 3.5, and also through a secondary offering with gross proceeds of MUSD 19.