



Q3-2006

Highlights in Q3

- Funcom signed a co-publishing agreement for Age of Conan with SCi/Eidos.
- During Q3, solid progress was made on the development of Age of Conan.
- Age of Conan was demonstrated to the world press at large scale marketing events like X06 Europe, X06 North America and Digital Life in North America under the 'Showcase Game for Vista'-partnership with Microsoft.
- Olav Sandnes was hired as new CFO for the Group. Mr. Sandnes' previous position was as VP Strategy and Business Development in Findexa AS/Eniro Norway
- Anarchy Online continued to perform well, with revenues and profits above expectations.
- The World Online, Funcom's next Massively Multiplayer Online Game (MMO), was approved for entry into the first phase of full production.
- Dreamfall sales in Q2 and Q3 combined have been above expectations for PC, but below expectations for Xbox due to the poor Xbox market caused by the Xbox 360 transition.

Financials

Funcom's revenues increased significantly compared to Q3 of 2005 mainly because of Dreamfall revenues and consolidation of Plutolife's mobile revenues. In Q3 2006 Funcom had revenues of TUSD 2,217 compared to TUSD 1,111 in Q3 2005. As anticipated, the revenues in Q3 2006 were lower than in Q2, which was the launch quarter of Dreamfall. In Q3 2006, the Group had an operating profit (EBIT) of TUSD -353 compared to TUSD -373 in Q3 2005.

The Group's financial position remains strong, and as of 30 September 2006, Funcom had TUSD 38,544 in cash.

The cash flow for the three first quarters was TUSD -878 from operations and TUSD -8,662 from investments. The negative cash flow has been anticipated due partly to higher operating costs, but primarily to higher investments in new games. Cash flow from financing activities in the three first quarters was TUSD 19,863, net of commissions, from the equity issues in Q1.

Company & Market

Funcom has grown from 218 employees at the start of the quarter to 223 employees as of 30 September 2006, including employees in Plutolife, Funcom's mobile entertainment subsidiary.

During the third quarter, major highlights were:

- Signed a co-publishing partnership with SCi/Eidos that ensures broad global retail distribution for Age of Conan at launch. Eidos will publish the Age of Conan game in physical boxed product, while Funcom retains all rights for digital distribution.
- The development of Age of Conan made good progress. Key milestones reached include player versus player combat, server optimization and an international territory deployment system.
- Anarchy Online continues to perform well, with revenues and profits above expectations. The game has now been live for more than 5 years, and the life span of the game illustrates the longevity of popular games in the MMO genre.
- The World Online entered into the first phase of production. 20 experienced game developers are now working on the game, with Ragnar Tørnquist who has experience as Game Director for Dreamfall, The Longest Journey and Casper – The Friendly Ghost, leading the project.
- Plutolife, Funcom's mobile entertainment subsidiary, which is one of the world's leading companies within mobile dating, met with some difficulties. The company had setbacks with two major partnerships that have negatively impacted the non-Scandinavian revenues of Plutolife.

Outlook

The Group expects flat to slightly negative revenue development in the next quarter. The Anarchy Online expansion pack "Lost Eden" to be launched in November, will strengthen the game's position among its fans and extend the game's longevity, but is not expected to have a major impact on Funcom's revenues.

There has been no material subsequent event after the balance date of this interim report.

The Supervisory Board of Funcom N.V.
Dübendorf, 1 November, 2006

FUNCOM N.V. – THIRD QUARTER FINANCIALS OF 2006
PRELIMINARY. NOT AUDITED FIGURES

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	Third Quarter		Accumulated		Full Year
	2006	2005	2006	2005	2005
Revenues, PC/Console	1,600	1,111	6,937	3,265	4,432
Revenues, Mobile	617		1,739		859
Total Operating Revenues	2,217	1,111	8,676	3,265	5,291
Cost of sales	-329	-144	-932	-498	-805
Operating expenses	-1,717	-1,151	-6,420	-3,191	-4,994
Depreciation and amortization	-524	-188	-3,528	-633	-813
Total operating expenses	-2,570	-1,484	-10,880	-4,322	-6,612
Earnings Before Interest and Tax ("EBIT")	-353	-373	-2,204	-1,057	-1,321
Net financial items	-864	133	2,379	156	-161
Earnings Before Tax ("EBT")	-1,216	-240	175	-901	-1,482
Taxes	-18	-9	-97	-26	6
Earnings before minority interest	-1,234	-249	78	-927	-1,476
Minority interest	36		67		-82
Earnings After Tax ("EAT")	-1,198	-249	145	-927	-1,558
Earnings per share (USD)	-0.03	-0.01	0.00	-0.03	-0.05
Earnings per share fully diluted (USD)	-0.02	-0.01	0.00	-0.03	-0.05
Average number of shares (1000)	47,745	30,914	46,706	27,441	28,972
Average number of shares fully diluted (1000)	48,995	32,164	47,956	27,858	29,597

BALANCE SHEET <i>(Figures in TUSD)</i>	30-Sep		Full Year
	2006	2005	2005
ASSETS			
Intangible assets	16,896	9,868	12,235
Tangible fixed assets	823	432	538
Investment in associate			
Trade debtors	1,818	435	644
Prepays and other receivables	1,150	492	513
Cash and cash equivalents	38,544	4,562	26,380
Total assets	59,231	15,789	40,310
EQUITY & LIABILITIES			
Paid in capital	94,241	49,816	72,116
Retained earnings	-38,604	-37,934	-38,744
Equity attributable to minority interest	231		285
Long-term liabilities	155		
Short-term liabilities	3,208	3,907	6,653
Total equity & liabilities	59,231	15,789	40,310

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	30-Sep		Full Year
	2006	2005	2005
Cash flow from operating activities	-878	-572	-15
Cash flow from investment activities	-8,662	-5,000	-7,994
Cash flow from financing activities	19,863	7,189	31,744
Change in cash and cash equivalents	10,322	1,617	23,735
Cash and cash equivalent, beginning of period	26,380	2,920	2,920
Effect of exchange rate fluctuations on cash held	1,842	24	-275
Cash and cash equivalent, end of period	38,544	4,562	26,380

EQUITY <i>(Figures in TUSD)</i>	30-Sep		Full Year
	2006	2005	2005
Opening balance	33,657	7,087	7,087
Net profit/loss attributable to the parent company	145	-927	-1,558
Equity issues	21,958	5,689	28,026
Changes in minority interest	-54		285
Other	162	33	-183
Closing balance	55,868	11,882	33,657

INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i>	Q3⁸	Q4	Q1	Q2	Q3
	2005	2005	2006	2006	2006
Revenues, PC/Console	1,111	1,167	1,287	4,050	1,600
Revenues, Mobile	612	859	561	561	617
Total operating revenues	1,723	2,026	1,848	4,611	2,217
Sales growth quarter by quarter (%)	1.8 %	17.6 %	-8.8 %	149.6 %	-51.9 %
EBIT PC/Console	-373	-455	-566	-1,133	-299
EBIT Mobile	193	82	-64	-88	-54
EBIT Total	-180	-373	-630	-1,221	-353
Pre-tax earnings per share (USD)	-0.01	-0.02	0.01	0.02	-0.03
Pre-tax earnings per share (USD) fully diluted	-0.01	-0.02	0.01	0.01	-0.02

FUNCOM N.V. – THIRD QUARTER FINANCIALS OF 2006

PRELIMINARY. NOT AUDITED FIGURES

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, market and carry on business in computer games in the broadest sense. The unaudited interim condensed consolidated financial statements of the Group for the nine months ended 30 September 2006 were approved for issue by the supervisory board on 1 November 2006.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements of the Group for the nine months ended 30 September 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

After the initial sale of Dreamfall and recognition of large guaranteed payments in Q2 2006, the sales have declined significantly, as expected.

4 Operating expenses

The decrease in operating expenses in Q3 compared to Q2 is related to higher marketing costs in Q2 due to the E3 show in May 2006 and to the decision by the company to start capitalizing investments in The World Online in Q3.

5 Depreciation and amortization

Compared to Q3 2005, the amortization time of Anarchy Online is prolonged, due to a longer anticipated useful lifespan. The effect on Profit&Loss is TUSD 60 per quarter. From April 2006 amortization related to Dreamfall is included. As amortization has been set equal to the revenues recognized for Dreamfall, amortization will change from quarter to quarter.

6 Net financial items

Changes in currency rates when compared to USD, the functional currency of the Group, caused large exchange profits in Q1 and Q2. In Q3 the currency rate changes has led to a significant exchange loss. For the full year, the currency rate changes have resulted in an exchange profit of TUSD 1,842. Most of the Group's cash is denominated in Norwegian kroner.

7 Figures for comparison

From Q4 2005 Plutolife was fully consolidated, the comparative figures for Q3 in 2005 do not include Plutolife.

8 Interim segment results

Funcom N.V. effectively acquired the majority in Plutolife AS on October 1st 2005. Interim sales and EBIT figures in Q3 2005 are pro forma. From Q4 2005 Plutolife AS is fully consolidated.

9 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.

10 Cash flow

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.