



Q4-2006

Recent highlights

- The launch date of the massively multiplayer online game (MMO) *Age of Conan* was pushed to October 30, 2007.
- *Age of Conan* received approval for the Xbox360 platform from Microsoft, and SCi/Eidos picked up their option to publish the Xbox360 version of the game under the same conditions as for the PC version.
- *Age of Conan* was demonstrated as a Vista Showcase game at the CES show in Las Vegas in January 2007, and at Microsoft Vista launch events in New York, San Francisco, Paris and Scandinavia, as one of only two games utilizing the new DX10 graphics technology in Vista.
- *Age of Conan* received broad press coverage in December and January, and the game was for instance mentioned on the 'Most Anticipated' lists of all PC games for 2007 in several major gaming sites and publications.
- *Lost Eden*, the latest expansion pack for the MMO *Anarchy Online*, was released successfully in December and is expected to contribute to securing the game's loyal fan base.
- *Dreamfall* won a series of 'Game of the Year' awards from the world's leading gaming sites, including 'XBox Game of the Year' by popular vote at Gamespot.com.
- *Dreamfall* was released as a digital download product in co-operation with among others Valve and their Steam digital distribution system.
- Game industry veteran Michel Cassius joined the Supervisory Board of Funcom.

Financials

Funcom revenues in Q4, 2006 was TUSD 2,146, slightly up from TUSD 2,026 in Q4, 2005. Group operating profit (EBIT) was TUSD -1,017 in Q4, 2006 compared to TUSD -264 in Q4, 2005. A significant increase in Earnings after tax (EAT) to TUSD 3,156 in Q4, 2006, compared to TUSD -549 in Q4, 2005, was mainly due to capitalization of tax loss carry forward, as well as exchange rate profits.

The Group's financial position remains strong, and as of December 31 2006, Funcom had TUSD 37,423 in cash.

The cash flow for 2006 was TUSD 286 from operations and TUSD -12,347 from investments in development of new games. Cash flow from financing activities in 2006 was TUSD 19,787 primarily from the equity issues in Q1, 2006.

Selected Company highlights:

- During a full product review of the *Age of Conan* game conducted in January, the Company decided that additional time and investment in the game was required for the game to reach its full potential in terms of quality and subscriber base. The need for an extension in development time was mainly due to underestimation in the time required to complete the world building software of the game called Genesis and to produce graphical and animation assets at the very high quality level the Company aims for with the *Age of Conan* game.
- Funcom decided, in cooperation with SCi/Eidos, to set the new launch date for *Age of Conan* to October 30, 2007.
- The team working on Funcom's next MMO, *The World Online*, expanded to 33 employees
- Plutolife has repositioned its US operations. This is expected to have a positive impact in the longer term.
- Funcom, including its mobile subsidiary Plutolife, has grown from 223 employees at the start of Q4, 2006, to 231 employees as of December 31, 2006.

Market highlights;

- Vivendi/Blizzard launched the first expansion pack, *Burning Crusade*, for their massive MMO-hit *World of Warcraft* during January and reported a ship-in of over 4 million copies and a sell-through of more than 2.3 million copies in the first 24 hours, breaking all historical records for PC games.
- The success of *WoW* continues to expand the MMO demographics and market potential as new streams of players are introduced to the genre.
- Sony Online Entertainment and Sigil launched their *Vanguard* MMO in January. The game has received mixed reviews.
- *Lord of the Rings Online* from Turbine targets a launch in April 2007

Outlook

The Funcom Group expects a reduction in revenues in the next quarters until the launch of the *Age of Conan* game.

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

The Supervisory Board of Funcom N.V.
Dübendorf, February 14, 2007

FUNCOM N.V. - FOURTH QUARTER FINANCIALS OF 2006
PRELIMINARY, NOT AUDITED, FIGURES

| PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i> | Fourth Quarter | | Full Year | |
|--|-----------------------|--------------|------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues, PC/Console | 1,555 | 1,167 | 8,492 | 4,432 |
| Revenues, Mobile | 591 | 859 | 2,330 | 859 |
| Total Operating Revenues | 2,146 | 2,026 | 10,822 | 5,291 |
| Cost of sales | | | -42 | |
| Operating expenses | -2,510 | -2,110 | -9,818 | -5,799 |
| Depreciation, amortization and write down | -654 | -180 | -4,182 | -813 |
| Total operating expenses | -3,163 | -2,290 | -14,042 | -6,611 |
| Earnings Before Interest and Tax ("EBIT") | -1,017 | -264 | -3,220 | -1,321 |
| Net financial items | 1,440 | -318 | 3,819 | -161 |
| Earnings Before Tax ("EBT") | 423 | -582 | 599 | -1,482 |
| Taxes | 2,733 | 33 | 2,636 | 6 |
| Earnings After Tax ("EAT") | 3,156 | -549 | 3,235 | -1,476 |
| Attributable to minority interest | -44 | 82 | -111 | 82 |
| Attributable to shareholders of Funcom N.V. | 3,200 | -631 | 3,346 | -1,558 |
| Earnings per share (USD) | 0.07 | -0.02 | 0.07 | -0.05 |
| Earnings per share fully diluted (USD) | 0.07 | -0.02 | 0.07 | -0.05 |
| Average number of shares (1000) | 47,745 | 33,544 | 46,969 | 28,972 |
| Average number of shares fully diluted (1000) | 49,083 | 34,794 | 48,306 | 29,597 |

| BALANCE SHEET <i>(Figures in TUSD)</i> | 31-Dec | |
|--|---------------|---------------|
| | 2006 | 2005 |
| ASSETS | | |
| Deferred tax asset | 2,538 | |
| Other intangible assets | 19,698 | 12,235 |
| Tangible fixed assets | 1,028 | 538 |
| Trade debtors | 1,239 | 644 |
| Prepayments and other receivables | 1,610 | 513 |
| Cash and cash equivalents | 37,423 | 26,380 |
| Total assets | 63,536 | 40,310 |
| EQUITY & LIABILITIES | | |
| Paid in capital | 94,441 | 72,116 |
| Retained earnings | -35,326 | -38,744 |
| Equity attributable to minority interest | 196 | 285 |
| Long-term liabilities | | |
| Short-term liabilities | 4,225 | 6,653 |
| Total equity & liabilities | 63,536 | 40,310 |

| CASH FLOW STATEMENT <i>(Figures in TUSD)</i> | 31-Dec | |
|--|---------------|-------------|
| | 2006 | 2005 |
| Cash flow from operating activities | 286 | -15 |
| Cash flow from investment activities | -12,347 | -7,994 |
| Cash flow from financing activities | 19,787 | 31,744 |
| Change in cash and cash equivalents | 7,726 | 23,735 |
| Cash and cash equivalent, beginning of period | 26,380 | 2,920 |
| Effect of exchange rate fluctuations on cash held | 3,316 | -275 |
| Cash and cash equivalent, end of period | 37,423 | 26,380 |

| EQUITY <i>(Figures in TUSD)</i> | 31-Dec | |
|--|---------------|-------------|
| | 2006 | 2005 |
| Opening balance | 33,657 | 7,087 |
| Net profit/loss attributable to the parent company | 3,346 | -1,558 |
| Equity issues | 21,958 | 28,026 |
| Changes in minority interest | -89 | 339 |
| Other | 439 | -237 |
| Closing balance | 59,311 | 33,657 |

| INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i> | Q4 | Q1 | Q2 | Q3 | Q4 |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2005 | 2006 | 2006 | 2006 | 2006 |
| Revenues, PC/Console | 1,167 | 1,287 | 4,050 | 1,600 | 1,555 |
| Revenues, Mobile | 859 | 561 | 561 | 617 | 591 |
| Total operating revenues | 2,026 | 1,848 | 4,611 | 2,217 | 2,146 |
| Sales growth quarter by quarter (%) | 17.6 % | -8.8 % | 149.6 % | -51.9 % | -3.2 % |
| EBIT PC/Console | -346 | -566 | -1,133 | -299 | -752 |
| EBIT Mobile | 82 | -64 | -88 | -54 | -264 |
| EBIT Total | -264 | -630 | -1,221 | -353 | -1,017 |

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, market and carry on business in computer games in the broadest sense. The unaudited interim condensed consolidated financial statements of the Group for the twelve months ended 31 December 2006 were approved for issue by the supervisory board on 14 February 2007.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements of the Group for the twelve months ended 31 December 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.

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 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

Revenues include the initial download sales of the expansion pack – Anarchy Online, Lost Eden.

4 Operating expenses

Compared to previous periods the Group has now reclassified certain items from Cost of sales to Operating expenses. All historic figures have been changed accordingly.

The increase in operating expenses in Q4 compared to Q3 is related to a bonus payment for Anarchy Online, and higher expenses related to sales and marketing.

5 Depreciation, amortization and write down

The Group amortizes capitalized game investment over the period of the estimated future economical benefit. In Q4 this item include an amortization of expansion pack Lost Eden and a write down of an intangible asset in the Groups mobile division.

6 Net financial items

Favorable changes in currency rates have caused exchange profits. Most of the Group's cash is denominated in Norwegian kroner.

7 Taxes

Funcom assessment is that it will be able to utilize parts of the Group's accumulated tax losses against future profits. Accumulated tax loss carry forward are therefore capitalized in Q4 2006

8 Interim segment results

EBIT in the mobile division is influenced by non recurring items such as, loss on receivables, write down of an intangible asset and costs related to the repositioning of the US operations.

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 related to the green-shoe option from the IPO with gross proceeds of MUSD 3.5, and also through a secondary offering with gross proceeds of MUSD 19.0