



Q1-2007

Summary

- More than 100,000 gamers signed up for Funcom's Massively Multiplayer Online Game (MMO) *Age of Conan*'s external Beta test over the Easter holiday despite a demanding sign-up process. 50,000 signed up the first 24 hours, indicating a significant interest and anticipation for the game.
- In January the launch of *Age of Conan* was pushed to October 30, 2007.
- *Age of Conan* received broad press coverage and favourable reviews in relation to the GDC and the CES conferences in the US and in the 'Games for Windows' events during Q1 and early Q2. Journalists were invited to play the game hands-on for the first time at these events.
- Funcom signed a managed hosting and infrastructure management agreement with IPsoft, for *Age of Conan*. IPsoft, a world class outsourced network- and systems infrastructure support company, will host and operate the server park for the game.
- Funcom officially announced its next MMO, *The Secret World*, previously known by its working title *The World Online*.
- External stress testing of *Age of Conan* started during April.
- In the US some outlets have started pre-order programs for *Age of Conan*.
- *The Secret World* was unveiled as an action-packed role-playing MMO set in modern-day real world locations like London, New York and Shanghai, where players must battle the forces of darkness and join secret organisations to take part in global conspiracies. The team size of *The Secret World* is at present 35 employees, and the game is in its first phase of full production.
- The Norwegian Film Fund awarded Funcom a grant of TUSD 242 to enable Funcom to establish core technology research of online-only delivery methods of episodic content, as well as lay the foundation for pre-production of online episodes for *Dreamfall - The Longest Journey*.
- Plutolife experiences positive development in the US market, and continues to pursue its strategy of linking up directly with the major telecom operators.
- Funcom, including its mobile subsidiary Plutolife, has grown from 231 employees at the start of Q1, 2007, to 250 employees as of March 31, 2007.

Financials

Funcom revenues in Q1, 2007 were TUSD 1,793, slightly down from TUSD 1,848 in Q1, 2006. Group operating profit (EBIT) was TUSD -1,213 in Q1, 2007 compared to TUSD -630 in Q1, 2006, mainly due to increased cost levels in the preparations for the *Age of Conan* launch. The Group's financial position remains strong, and as of March 31, 2007, Funcom had TUSD 33,201 in cash.

The cash flow for the first quarter of 2007 was TUSD -733 from operations compared to TUSD -669 in Q1 2006. Cash flow from investments, mainly in development of new games, was TUSD -4,090 in Q1 2007 compared to TUSD -2,912 in Q1 2006.

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 new launch date was set to October 30, 2007.
- The external Beta testing for *Age of Conan* has been initiated. Funcom has not experienced technical issues that will impact the launch date.

Market highlights

- The MMO market continues to grow significantly, mainly driven by World of Warcraft (WoW)
- Turbine successfully released its highly anticipated MMO *Lord of the Rings Online* in April, confirming that the market welcomes new quality MMO titles. In the opinion of the Company, the market for high quality MMOs is underserved, and there is a limited number of new MMOs with high market potential in the pipeline for the next few years.
- EA/Mythic postponed the launch date for *Warhammer Online* to early 2008
- Sony Online Entertainment and Sigil launched their *Vanguard* MMO in January. The game has not had significant success.

Outlook

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

There has been no material events after balance sheet date of this interim report..

The Supervisory Board of Funcom N.V.
Dübendorf, May 15, 2007

FUNCOM N.V. - FIRST QUARTER FINANCIALS OF 2007
PRELIMINARY, NOT AUDITED, FIGURES

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	First Quarter		Full Year
	2007	2006	2006
Revenues, PC/Console	1,194	1,287	8,492
Revenues, Mobile	599	561	2,330
Total Operating Revenues	1,793	1,848	10,822
Cost of sales			-42
Operating expenses	-2,619	-2,318	-9,818
Depreciation, amortization and write down	-387	-160	-4,182
Total operating expenses	-3,006	-2,478	-14,042
Earnings Before Interest and Tax ("EBIT")	-1,213	-630	-3,220
Net financial items	909	1,227	3,820
Earnings Before Tax ("EBT")	-303	597	600
Taxes	81	-6	2,636
Earnings After Tax ("EAT")	-222	591	3,236
Attributable to minority interest	-19	-21	-111
Attributable to shareholders of Funcom N.V.	-204	612	3,347
Earnings per share (USD)	0.00	0.01	0.07
Earnings per share fully diluted (USD)	0.00	0.01	0.07
Average number of shares (1000)	47,745	44,606	46,969
Average number of shares fully diluted (1000)	49,995	45,856	48,306

BALANCE SHEET <i>(Figures in TUSD)</i>	31-Mar		Full Year
	2007	2006	2006
ASSETS			
Deferred tax asset	2,661		2,538
Other intangible assets	22,850	14,718	19,698
Tangible fixed assets	1,157	618	1,028
Long-term receivables	423		
Trade debtors	900	862	1,239
Prepayments and other receivables	1,939	890	1,612
Cash and cash equivalents	33,201	44,194	37,423
Total assets	63,131	61,282	63,538

EQUITY AND LIABILITIES			
Paid in capital	94,492	94,124	94,442
Other reserves	-35,423	-38,149	-35,325
Equity attributable to minority interest	202	271	196
Long-term liabilities			
Short-term liabilities	3,860	5,036	4,225
Total equity and liabilities	63,131	61,282	63,538

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	31-Mar		Full Year
	2007	2006	2006
Cash flow from operating activities	-733	-669	286
Cash flow from investing activities	-4,090	-2,912	-12,347
Cash flow from financing activities		20,307	19,787
Change in cash and cash equivalents	-4,823	16,726	7,726
Cash and cash equivalents, beginning of period	37,423	26,380	26,380
Effect of exchange rate fluctuations on cash held	601	1,088	3,317
Cash and cash equivalents, end of period	33,201	44,194	37,423

EQUITY <i>(Figures in TUSD)</i>	31-Mar		Full Year
	2007	2006	2006
Opening balance	59,313	33,657	33,657
Net profit/loss attributable to the parent company	-205	612	3,347
Equity issues		21,958	21,959
Changes in minority interest	6	-14	-89
Other	157	33	439
Closing balance	59,271	56,246	59,313

INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i>	Q1	Q2	Q3	Q4	Q1
	2006	2006	2006	2006	2007
Revenues, PC/Console	1,287	4,050	1,600	1,555	1,194
Revenues, Mobile	561	561	617	591	599
Total operating revenues	1,848	4,611	2,217	2,146	1,793
Sales growth quarter by quarter (%)	-8.8 %	149.6 %	-51.9 %	-3.2 %	-16.4 %
EBIT PC/Console	-566	-1,133	-299	-752	-1,086
EBIT Mobile	-64	-88	-54	-264	-127
EBIT Total	-630	-1,221	-353	-1,017	-1,213

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 three months ended 31 March 2007 were approved for issue by the supervisory board on 15 May 2007.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements of the Group for the three months ended 31 March 2007 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 2006 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 Depreciation, amortization and write down

The Group amortizes capitalized game investment over the period of the estimated future economical benefit.

4 Net financial items

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

5 Taxes

Funcom assessment is that it will be able to utilize the Group's accumulated tax losses against future profits, the Q1 tax income is a result of revaluation of tax losses and changes in temporary differences.

6 Cash flows

During the first quarter 2006, Funcom N.V. issued new shares first related to the green-shoe option from the IPO in 2005, with gross proceeds of MUSD 3.5, and also through a secondary offering with gross proceeds of MUSD 19.0

7 Events after balance sheet date

In April Funcom N.V. purchased additional 411,363 shares in Plutolife AS for a total cost of TUSD 166. Funcom's shareholding after this purchase increased from 63.45% to 74.87%.