



Q2-2007

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 in the first 24 hours, indicating significant interest and anticipation for the game.
- *Age of Conan* received strong early sales indications from partners and retail channels both in the U.S. and in Europe in Q2.
- Press and gamer expectations for *Age of Conan* also continued to increase as most of the world's major gaming press had hands on experience playing the game.
- Funcom secured 30 million USD through a private placement arranged in June 2007.
- *Age of Conan* was demonstrated at the E3 show in July, in partnership with Microsoft and Eidos, and has received broad coverage in the gaming press.
- Funcom officially announced its next MMO, *The Secret World*, previously known by its working title *The World Online*.
- Beta external testing of *Age of Conan* is well underway. The Beta is focusing on stress testing and game play.

Financials

Funcom revenues in Q2, 2007 were TUSD 1,593, down from TUSD 4,611 in Q2, 2006 which were highly influenced by the launch of *Dreamfall: The Longest Journey*. Group operating profit (EBIT) was TUSD -1,460 in Q2, 2007 compared to TUSD -1,221 in Q2, 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 June 30, 2007, Funcom had TUSD 29,859 in cash. In addition the cash balance was strengthened by approximately USD 30 million through the private placement conducted June 26th, 2007. The proceeds of the private placement were included in the Funcom accounts after the approval of the Extraordinary General Meeting July 16th, 2007.

The cash flow for the first six month of 2007 was TUSD -508 from operations compared to TUSD -1,021 in the first six months of 2006. In the same period, cash flow from investments, mainly in development of new games, was TUSD -8,642 in 2007 compared to TUSD -5,782 in 2006.

Company highlights

- To further strengthen Funcom's marketing and operational capacity prior to the launch of *Age of Conan*, and to increase the Company' strategic flexibility, additional funding was secured through a private placement of approximately USD 30 million.

- Funcom announced that the company has decided to enter the casual MMO segment and is currently evaluating possible expansion opportunities.
- The *Age of Conan* community is continuing its strong growth both in number of members and level of activity.
- The external Beta testing for *Age of Conan* is well underway, and Funcom has not identified issues that might impact the launch date.
- Hosting centres for the *Age of Conan* game are being set up in Amsterdam and New Jersey in cooperation with IPSofT.
- At E3 *Age of Conan* won the IGN award for "Best PC Persistent Online Game" (MMO). Marketing materials including the new CG video and retail box design for the game were presented to the market.
- In some markets, among them the US, some retail outlets have started pre-order programs for *Age of Conan*.
- In May, *The Secret World* was unveiled as an action-packed role-playing MMO set in the modern-day real world. The team size of *The Secret World* is at present 35 employees, and the game is in its first phase of full production.
- Plutolife, Funcom's mobile subsidiary, experienced positive development in the US market, and has secured contracts with several US telco operators.
- Funcom, including Plutolife, has grown from 250 employees at the start of Q2, 2007, to 274 employees as of June 30, 2007.

Market highlights

- Turbine successfully released its MMO *The Lord of the Rings Online* in April, confirming that the market welcomes new quality MMO titles. The game has received positive reviews, and shows and appears to be performing well.
- EA/Mythic postponed the launch date of their *Warhammer Online* game to early 2008. The game was not shown at the latest trade show E3 in Los Angeles.
- Sony Online Entertainment announced the development of a new online MMO called *The Agency*. No launch window is yet communicated.

Outlook

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

There have been no material events after balance sheet date of this interim report, other than the approval of the private placement by the extraordinary general meeting, held 16th July, 2007

*The Supervisory Board of Funcom N.V.
Dübendorf, July 25, 2007*

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

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	Second Quarter		Accumulated		Full Year
	2007	2006	2007	2006	2006
Revenues, PC/Console	1,084	4,050	2,278	5,337	8,492
Revenues, Mobile	509	561	1,108	1,122	2,330
Total Operating Revenues	1,593	4,611	3,386	6,459	10,822
Cost of sales		-16		-16	-42
Operating expenses	-2,705	-2,972	-5,324	-5,288	-9,818
Depreciation, amortization and write down	-348	-2,844	-735	-3,004	-4,182
Total operating expenses	-3,053	-5,832	-6,059	-8,308	-14,042
Earnings Before Interest and Tax ("EBIT")	-1,460	-1,221	-2,673	-1,849	-3,220
Net financial items	1,139	2,016	2,048	3,244	3,820
Earnings Before Tax ("EBT")	-321	795	-625	1,394	600
Taxes	1,097	-73	1,178	-79	2,636
Earnings After Tax ("EAT")	776	722	553	1,315	3,236
Attributable to minority interest	-43	-10	-62	-31	-111
Attributable to shareholders of Funcom N.V.	819	732	615	1,346	3,347
Earnings per share (USD)	0.02	0.02	0.01	0.03	0.07
Earnings per share fully diluted (USD)	0.02	0.01	0.01	0.03	0.07
Average number of shares (1000)	47,881	47,745	49,788	46,175	46,969
Average number of shares fully diluted (1000)	49,856	48,995	49,856	47,425	48,306

BALANCE SHEET <i>(Figures in TUSD)</i>	2007	30-Jun	2006	Full Year
				2006
ASSETS				
Deferred tax asset		3,781		2,538
Other intangible assets		26,767	14,554	19,698
Tangible fixed assets		1,320	809	1,028
Long-term receivables		435		
Trade debtors		826	2,554	1,239
Prepayments and other receivables		2,075	1,232	1,612
Cash and cash equivalents		29,859	42,424	37,423
Total assets		65,063	61,573	63,538
EQUITY AND LIABILITIES				
Paid in capital		94,772	94,214	94,442
Other reserves		-34,591	-37,313	-35,325
Equity attributable to minority interest		116	273	196
Long-term liabilities		0	154	
Short-term liabilities		4,766	4,245	4,225
Total equity and liabilities		65,063	61,573	63,538

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	2007	30-Jun	2006	Full Year
				2006
Cash flow from operating activities	-508		-1,021	286
Cash flow from investing activities	-8,642		-5,782	-12,347
Cash flow from financing activities	161		19,847	19,787
Change in cash and cash equivalents	-8,989		13,044	7,726
Cash and cash equivalents, beginning of period	37,423		26,380	26,380
Effect of exchange rate fluctuations on cash held	1,425		3,000	3,317
Cash and cash equivalents, end of period	29,859		42,424	37,423

EQUITY <i>(Figures in TUSD)</i>	2007	30-Jun	2006	Full Year
				2006
Opening balance	59,313		33,657	33,657
Net profit/loss attributable to the parent company	615		1,346	3,347
Equity issues	161		21,958	21,959
Changes in minority interest	(80)		-12	-89
Other	288		225	439
Closing balance	60,297		57,174	59,313

INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i>	Q2	Q3	Q4	Q1	Q2
	2006	2006	2006	2007	2007
Revenues, PC/Console	4,050	1,600	1,555	1,194	1,084
Revenues, Mobile	561	617	591	599	509
Total operating revenues	4,611	2,217	2,146	1,793	1,593
Sales growth quarter by quarter (%)	149.6 %	-51.9 %	-3.2 %	-16.4 %	-11.2 %
EBIT PC/Console	-1,133	-299	-752	-1,086	-1,316
EBIT Mobile	-88	-54	-264	-127	-144
EBIT Total	-1,221	-353	-1,017	-1,213	-1,460

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 six months ended 30 June 2007 were approved for issue by the supervisory board on 25 July 2007. In April 2007 Funcom N.V. incorporated a new subsidiary in Switzerland, Funcom Sales GmbH as part of the preparation for the launch of *Age of Conan*.

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 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 economic 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's assessment is that it will be able to utilize the Group's accumulated tax losses against future profits, the Q2 tax income is a result of revaluation of tax losses and changes in temporary differences.

6 Cash flows

During the second quarter 2007 Funcom N.V. issued new shares in connection with the exercise of share options. The proceeds from this issuance were TUSD 161. 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 the balance sheet date

On June 26, 2007, Funcom completed a private placement of approximately USD 30 million. The private placement was contingent of an approval by the extraordinary general meeting held July 16, 2007. The extraordinary general meeting approved the private placement and Funcom included the proceedings in the accounts from that day.