



Q3-2007

Summary

- In August, the launch of *Age of Conan* was rescheduled to March 25, 2008. The Company decided to extend the development time of the game to improve accessibility to the game and enhance some key game systems, based on external feedback and internal analysis.
- The development of *Age of Conan* is on track for the revised launch date. The planned changes to the game have so far been implemented on time.
- The *Age of Conan* game is currently in the Beta phase of development with focus on external game play testing and technical stress testing in addition to the development and implementation of the changes communicated in August.
- *Age of Conan* continues to receive praise and positive feedback from press and industry and won this year's official price for 'Best Online Game' at Europe's largest show for interactive entertainment, GC (Games Convention) in Leipzig, Germany.
- Funcom launched in-game sales of virtual items in *Anarchy Online*. Funcom believes sale of in-game virtual items will be an important additional revenue source for some future Massively Multiplayer Online games (MMOs).
- Funcom started development of a casual MMO in Q3 2007, targeted at younger and more casual MMO players.

Financials

Funcom revenues in Q3, 2007 were TUSD 1,764, down from TUSD 2,217 in Q3, 2006. The higher revenues in Q3, 2006, were due to revenues from *Dreamfall*, a game launched in Q2, 2006. Group operating profit (EBIT) was TUSD -1,774 in Q3, 2007 compared to TUSD -353 in Q3, 2006, mainly due to increased cost levels related to the build up for the *Age of Conan* launch and exchange rate fluctuations. The Group's financial position remains strong, and as of September 30, 2007, Funcom had TUSD 58,533 in cash.

The cash flow for the first nine months of 2007 was TUSD -933 from operations compared to TUSD - 878 in the first nine months of 2006. In the same period, cash flow from investments, mainly in development of new games, was TUSD -13,071 in 2007 compared to TUSD -8,662 in 2006.

Company highlights

- Based on external feedback and internal analysis, Funcom concluded that more development time was required to reduce the entry barrier to *Age of Conan* and make the game even more accessible during the first hours of playtime. This implied making improvements in some core game systems.

The new release date was set to the 25th of March 2008.

- Funcom initiated development of a casual MMO, and is also evaluating other possible expansion opportunities.
- Hosting centres for the *Age of Conan* game were set up in Amsterdam and New Jersey in cooperation with IPSoft and will be expanded towards launch.
- Millennium Films acquired the rights to produce a new series of movies based on Robert E. Howard's Conan the Barbarian.
- In July, the *Age of Conan* game won the IGN award for "Best PC Persistent Online Game" (MMO) at E3. Marketing materials including the new CGI video and retail box design for the game were presented to the market.
- *The Secret World*, Funcom's second large scale MMO in development progressed well and currently has a team size of 40 employees.
- Plutolife, Funcom's mobile subsidiary, experienced positive development in the US market, and secured and implemented contracts with several US telecom operators.
- Funcom, including Plutolife, grew from 274 employees at the start of Q3, 2007, to 288 employees as of September 30, 2007.

Market highlights

- Perpetual Entertainment stopped the development of its *Gods and Heroes* MMO planned to be released in Q1 2008.
- EA Mythic announced that the Warhammer Online beta servers would be closed down for two months, starting October 10th 2007 resulting in speculations regarding a possible delay of the current launch target in early 2008
- Electronic Arts Inc. acquired BioWare Corp. and Pandemic Studios for a total of 775 MUSD. Bioware is recognized for creating some of the highest-quality games in the industry, and has one unannounced MMO title in development.
- ZeniMax Media, owner of Bethesda Softworks, announced that it will receive \$300 million in funding from Providence Equity Partners Inc to "increase game development and publishing, facilitate acquisitions, and finance MMOs".

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.

The Supervisory Board of Funcom N.V.
Dübendorf, October 31, 2007

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

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	Third quarter		Accumulated		Full Year
	2007	2006	2007	2006	2006
Revenues, PC/Console	1,176	1,600	4,042	6,937	8,492
Revenues, Mobile	588	617	1,108	1,739	2,330
Total Operating Revenues	1,764	2,217	5,150	8,676	10,822
Cost of sales		-26		-42	-42
Operating expenses	-3,133	-2,019	-8,457	-7,309	-9,818
Depreciation, amortization and write down	-405	-524	-1,140	-3,528	-4,182
Total operating expenses	-3,538	-2,570	-9,597	-10,880	-14,042
Earnings Before Interest and Tax ("EBIT")	-1,774	-353	-4,447	-2,204	-3,220
Net financial items	5,440	-864	7,487	2,380	3,820
Earnings Before Tax ("EBT")	3,666	-1,216	3,040	175	600
Taxes	276	-18	1,454	-97	2,636
Earnings After Tax ("EAT")	3,942	-1,234	4,494	78	3,236
Attributable to minority interest	-71	-36	-132	-67	-111
Attributable to shareholders of Funcom N.V.	4,013	-1,198	4,626	145	3,347
Earnings per share (USD)	0.08	-0.03	0.09	0.00	0.07
Earnings per share fully diluted (USD)	0.07	-0.02	0.09	0.00	0.07
Average number of shares (1000)	52,177	47,745	49,196	47,745	46,969
Average number of shares fully diluted (1000)	54,152	48,995	51,171	48,995	48,306

BALANCE SHEET <i>(Figures in TUSD)</i>	2007	30-Sep	2006	Full Year
				2006
ASSETS				
Deferred tax asset		4,121		2,538
Other intangible assets		30,812	16,896	19,698
Tangible fixed assets		1,444	823	1,028
Long-term receivables		471		
Trade debtors		1,007	1,818	1,239
Prepayments and other receivables		1,953	1,150	1,612
Cash and cash equivalents		58,533	38,544	37,423
Total assets		98,341	59,231	63,538
EQUITY AND LIABILITIES				
Paid in capital		124,406	94,241	94,442
Other reserves		-30,086	-38,604	-35,325
Equity attributable to minority interest		34	231	196
Long-term liabilities		158	155	
Short-term liabilities		3,829	3,208	4,225
Total equity and liabilities		98,341	59,231	63,538

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	2007	30-Sep	2006	Full Year
				2006
Cash flow from operating activities	-933		-878	286
Cash flow from investing activities	-13,071		-8,662	-12,347
Cash flow from financing activities	29,496		19,863	19,787
Change in cash and cash equivalents	15,492		10,322	7,726
Cash and cash equivalents, beginning of period	37,423		26,380	26,380
Effect of exchange rate fluctuations on cash held	5,618		1,842	3,317
Cash and cash equivalents, end of period	58,533		38,544	37,423

EQUITY <i>(Figures in TUSD)</i>	2007	30-Sep	2006	Full Year
				2006
Opening balance	59,313		33,657	33,657
Net profit/loss attributable to the parent company	4,628		145	3,347
Equity issues	29,339		21,958	21,959
Changes in minority interest	(162)		-54	-89
Other	1,236		162	439
Closing balance	94,354		55,868	59,313

INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i>	Q3	Q4	Q1	Q2	Q3
	2006	2006	2007	2007	2007
Revenues, PC/Console	1,600	1,555	1,194	1,084	1,176
Revenues, Mobile	617	591	599	509	588
Total operating revenues	2,217	2,146	1,793	1,593	1,764
Sales growth quarter by quarter (%)	-51.9 %	-3.2 %	-16.4 %	-11.2 %	10.7 %
EBIT PC/Console	-299	-752	-1,086	-1,316	-1,504
EBIT Mobile	-54	-264	-127	-144	-270
EBIT Total	-353	-1,017	-1,213	-1,460	-1,774

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 nine months ended 30 Sep 2007 were approved for issue by the Funcom Supervisory Board on 31 October 2007.

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 Sep 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 Operating expenses

The increase in operating expenses is mainly due to an increased activity level prior to launch of *Age of Conan*. The significant exchange rate fluctuations between US Dollars and Norwegian kroner have also contributed to the increase.

4 Depreciation, amortization and write down

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

5 Net financial items

Over 95% of Funcom's cash and cash equivalents are denominated in Norwegian kroner. Net financial items have been affected by the significant exchange rate fluctuation between US Dollars and Norwegian kroner.

6 Taxes

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

7 Cash flows

The increased cash expenditures related to investing activities compared to 2006 are mainly a result of more personnel working on developing *Age of Conan* and *The Secret World*. Approximately TUSD 600 of the increased investments is related to the exchange fluctuations between Norwegian kroner and US Dollars. 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. 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. 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.