



Q4-2007

Summary

- In January, the launch of *Age of Conan* was re-scheduled to May 20, 2008. The Company decided to extend the development time of the game to stress the game systems and sort out bugs.
- The *Age of Conan* game is currently in the Beta phase of development with focus on external game play testing and technical stress testing.
- *Age of Conan* continues to receive praise and positive feedback from press and industry. The game has so far received around 20 front page covers from gaming press around the world. The game has been listed on top or among the top PC games for 2008 in several publications.
- The community of *Age of Conan* continues to grow. So far over 500.000 people have signed up for the *Age of Conan* beta and/or the newsletter. During January, the game sites of *Age of Conan* had more than 600.000 unique visitors, according to Google Analytics*.
- In the opinion of management, *Age of Conan*, is one of the two most anticipated MMOs in development in the Western World at present. In terms of community size and press coverage, the game is faring very positively. On dedicated MMO-sites the game seems to be the most anticipated MMO at present. Among mainstream gaming sites the picture is mixed, with very positive tracking on some parameters and less positive tracking on others.

Financials

Funcom revenues in Q4, 2007 were TUSD 1,745, down from TUSD 2,146 in Q4, 2006. The higher revenues in Q4, 2006, were due to revenues from *Anarchy Online* - Lost Eden, the expansion pack of AO launched in that quarter. Group operating profit (EBIT) was TUSD -3,075 in Q4, 2007 compared to TUSD -1.017 in Q4, 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 December 31, 2007, Funcom had TUSD 52,366 in cash.

The cash flow for 2007 was TUSD -2.878 from operations compared to TUSD 286 for 2006. Cash flow from investments, mainly in development of new games, was TUSD -18,055 in 2007 compared to TUSD -12,347 in 2006. Cash flow from financing activities in 2007 was TUSD 29.529.

Company highlights

- During December 2007 and January 2008, *Age of Conan* has received very positive feedback from press across the world, as press has been invited to

play the newest versions of the game.

Age of Conan has been listed as one of the most anticipated PC games of 2008 in gaming publications across the world. The Management of Funcom believes that the changes done to the accessibility and entry barriers of the game during the fall of 2007 have contributed significantly to this positive feedback.

- In January, the management of Funcom concluded that more time was needed to stress the game systems and sort out bugs in the game before launch in order to feel comfortable with the level of risk at launch and to capture as much as possible of the games' sales potential. The *Age of Conan* launch date was therefore set to May 20, 2008.
- Stress testing and game play testing of *Age of Conan* has been conducted on the large server parks that are operational in Europe and North America. These tests will be continued and extended moving forward to launch.
- Funcom expects the *Age of Conan* Gold master of the retail DVDs to be delivered by mid April and expects box production shortly after. A significant part of the marketing material for the game, including the retail box designs, pre-order programs, a new marketing web site and campaign materials have already been prepared and are ready for the upcoming launch.
- *The Secret World*, Funcom's 2nd large scale MMO in development progressed well in Q4 2007. Part of the team is now temporarily supporting the *Age of Conan* project.
- Funcom's casual game initiative is in early development phase and is progressing as planned.
- Plutolife, Funcom's mobile subsidiary is experiencing progress in the US.
- Funcom, including Plutolife, grew from 288 employees at the start of Q4, 2007, to 302 employees as of December 31, 2007.

Market highlights

- Blizzard and Activision announced a merger in December 2007 valuing the gaming assets of Blizzard at USD 8.1 billion.
- In November 2007 EA Mythic announced that *Warhammer Online* was further delayed. No concrete launch date has been set.
- In January 2008, there were significant changes to the board of Eidos' parent company, SCi Entertainment PLC ("SCi"). Funcom has an established and good working relationship with Phil Rogers, the new CEO of SCi. Funcom has received assurances from the new SCi board and the management at Eidos that they are fully committed to the success of the *Age of Conan* game and that

Age of Conan continues to be one of their most important titles for 2008.

- Blizzard Entertainment announced in January 2008 that subscribership for its *World of Warcraft* MMO recently passed the 10 million mark worldwide. Over 2 million of these subscribers were located in Europe, over 2.5 million were located in North America and around 5.5 million were located in Asia.

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.

For Funcom related risks please refer to the appendix to the Quarterly Report for a risk overview similar to the one presented in the IPO prospectus of December 2005 with appropriate amendments.

***The Supervisory Board of Funcom N.V.
Dübendorf, February 5, 2008***

**There are several sources of uncertainty in these numbers, but they are, in the opinion of the Company, of the right order of magnitude. The true number might be higher or lower than 600.000*

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

| PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i> | Fourth quarter | | Full Year | |
|--|-----------------------|---------------|------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues, PC/Console | 1,167 | 1,555 | 4,621 | 8,492 |
| Revenues, Mobile | 578 | 591 | 2,274 | 2,330 |
| Total Operating Revenues | 1,745 | 2,146 | 6,895 | 10,822 |
| Cost of sales | | | | -42 |
| Operating expenses | -4,616 | -2,509 | -13,073 | -9,818 |
| Depreciation, amortization and write down | -204 | -654 | -1,344 | -4,182 |
| Total operating expenses | -4,820 | -3,163 | -14,417 | -14,042 |
| Earnings Before Interest and Tax ("EBIT") | -3,075 | -1,017 | -7,522 | -3,220 |
| Net financial items | 197 | 1,440 | 7,685 | 3,820 |
| Earnings Before Tax ("EBT") | -2,878 | 423 | 163 | 600 |
| Taxes | 547 | 2,733 | 2,001 | 2,636 |
| Earnings After Tax ("EAT") | -2,331 | 3,156 | 2,164 | 3,236 |
| Attributable to minority interest | -22 | -44 | -154 | -111 |
| Attributable to shareholders of Funcom N.V. | -2,309 | 3,200 | 2,318 | 3,347 |
| Earnings per share (USD) | -0.04 | 0.07 | 0.05 | 0.07 |
| Earnings per share fully diluted (USD) | -0.04 | 0.07 | 0.04 | 0.07 |
| Average number of shares (1000) | 57,695 | 47,745 | 50,087 | 46,969 |
| Average number of shares fully diluted (1000) | 59,608 | 49,083 | 52,000 | 48,306 |

| BALANCE SHEET <i>(Figures in TUSD)</i> | 2007 | 31-Dec 2006 |
|--|---------------|------------------------------|
| ASSETS | | |
| Deferred tax asset | 4,509 | 2,538 |
| Other intangible assets | 35,697 | 19,698 |
| Tangible fixed assets | 1,661 | 1,028 |
| Long-term receivables | 469 | |
| Trade debtors | 977 | 1,239 |
| Prepayments and other receivables | 2,067 | 1,612 |
| Cash and cash equivalents | 52,366 | 37,423 |
| Total assets | 97,746 | 63,538 |
| EQUITY AND LIABILITIES | | |
| Paid in capital | 124,384 | 94,442 |
| Other reserves | -32,299 | -35,325 |
| Equity attributable to minority interest | 62 | 196 |
| Long-term liabilities | 87 | |
| Short-term liabilities | 5,512 | 4,225 |
| Total equity and liabilities | 97,746 | 63,538 |

| CASH FLOW STATEMENT <i>(Figures in TUSD)</i> | 2007 | 31-Dec 2006 |
|--|-------------|------------------------------|
| Cash flow from operating activities | -2,878 | 286 |
| Cash flow from investing activities | -18,055 | -12,347 |
| Cash flow from financing activities | 29,529 | 19,787 |
| Change in cash and cash equivalents | 8,596 | 7,726 |
| Cash and cash equivalents, beginning of period | 37,423 | 26,380 |
| Effect of exchange rate fluctuations on cash held | 6,347 | 3,317 |
| Cash and cash equivalents, end of period | 52,366 | 37,423 |

| EQUITY <i>(Figures in TUSD)</i> | 2007 | 31-Dec 2006 |
|--|-------------|------------------------------|
| Opening balance | 59,313 | 33,657 |
| Net profit/loss attributable to the parent company | 2,318 | 3,347 |
| Equity issues | 29,372 | 21,959 |
| Changes in minority interest | -134 | -89 |
| Other | 1,278 | 439 |
| Closing balance | 92,147 | 59,313 |

| INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i> | Q4 2006 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Revenues, PC/Console | 1,555 | 1,194 | 1,084 | 1,176 | 1,167 |
| Revenues, Mobile | 591 | 599 | 509 | 588 | 578 |
| Total operating revenues | 2,146 | 1,793 | 1,593 | 1,764 | 1,745 |
| Sales growth quarter by quarter (%) | -3.2 % | -16.4 % | -11.2 % | 10.7 % | -1.1 % |
| EBIT PC/Console | -752 | -1,086 | -1,316 | -1,504 | -2,882 |
| EBIT Mobile | -264 | -127 | -144 | -270 | -193 |
| EBIT Total | -1,017 | -1,213 | -1,460 | -1,774 | -3,075 |

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 Dec 2007 were approved for issue by the supervisory board on 05 February 2008.

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 Dec 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 an evaluation 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*. As most of the investments in intangible assets are denominated in Norwegian kroner the invested amount in USD is influenced by the significant 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.

Appendix: Funcom Risk Factors

Investment in Funcom involves a degree of risk. Several factors should be carefully considered before making any investment decision. The risks described below do not constitute a full list of the risks the Company is exposed to. Additional risk factors may also impair the Company's operations.

Shareholders should rely upon their own examination of all communications from Funcom and should study this carefully and also consult information and knowledge about the gaming space and the Massively Multiplayer Online Game segment. Shareholders should not construe the contents of this Report as legal, accounting or tax advice, or as information necessarily applicable to each potential investor's particular situation. Each potential investor should consult its own advisers for independent advice so that a balanced judgment can be made of a potential investment decision and all that is discussed and described in this report. The Company urges investors to track the industry and gaming media to gain a thorough and independent understanding of Funcom and the potential of its games.

This report and other communication from Funcom may also contain various "forward-looking statements" that involve inherent risks and uncertainties, including statements regarding the intent, opinion, belief or current expectations of Funcom or its management with respect to, among other things but not limited to, (i) goals and strategies, (ii) plans for new product development, (iii) marketing plans for Funcom's target markets, (iv) evaluation of Funcom's markets, competition and competitive position, (v) trends which may be expressed or implied by financial or other information or statements contained herein, and (vi) outcomes of disputes. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and outcomes to be materially different from any future results, performance or outcomes expressed or implied by such forward-looking statements.

Macroeconomic fluctuations

Funcom is exposed to the economic cycle, since changes in the general economic situation could affect demand for Funcom's products. Computer games are used for entertainment and therefore the demand may decline during recession when disposable income decreases.

Currency fluctuations

Because a considerable share of Funcom's business is conducted in currencies other than its functional currency, Funcom will be exposed to volatility associated with foreign currency exchange rates. Funcom invoices all non-EU customers in USD, while EU customers are invoiced in EUR. The operational costs of Funcom are to a large extent in NOK. The operational costs of Funcom are to a large extent in NOK. Funcom has only implemented an operational hedge by maintaining its cash and cash equivalents in NOK."

Share price volatility

The Funcom share price could experience substantial fluctuations caused by a number of factors. Many of these will be outside Funcom's control and may be independent of its operational and financial development. Factors which may affect the share price include the following (the list is not exhaustive):

- Reactions to quarterly and annual financial reports published by Funcom
- Changes in analysts' estimates
- Changes in the gaming industry in general
- Changes in market and financial prospects
- Rumors and speculation in the market

Variability of operating results etc.

Funcom's operating results may vary from month to month. Funcom's operating result may be hard to forecast due to unpredictable demand for its products, the competitive environment, other general economic and market conditions and unanticipated difficulties in pursuing Funcom's business strategy.

External parties

Funcom's success depends also partly on the ability of the Company's partners to effectively fulfill their commitments. Funcom has partners in the areas of hosting and server administration, billing, publishing, sales and distribution, hardware as well as other areas.

Contracts

Non-Swiss and non-Norwegian law governs several of Funcom's agreements. In addition, dispute resolution is set to venues in different places in Europe and the US. This may increase the legal risk and increase the costs in connection with the enforcement of any specific agreement.

Changes in the gaming industry in general

The market for Funcom's products and services is competitive and trend oriented. Failure of Funcom to maintain competitive products and services offering could have a material adverse effect on Funcom. If the generally expected market growth fails to materialize, the profitability of MMOs is likely to suffer.

Delay of product releases

For the current development projects, Funcom has a strong focus on making plans, analyzing risks, estimating time needed in each project phase and measuring progress. There is, however, an inherent development timeline risk in all software development, including in MMO game software development, and there is no assurance that development schedules will be held. If Funcom does not manage to release their games at the planned dates, the development budgets of the games may increase. There is also a risk that competitors will gain a foothold in the market at the expense of Funcom or that the games will be less competitive when launched due to advances of competitors, making users less willing to spend additional time and money on new games from Funcom.

Unsuccessful projects under development

Currently, there is a number of MMOs in development worldwide. Hence, consumers will have a number of options to choose between. Through the history of MMOs, the market has never accommodated many top-selling products at any one time. Even though the number of serious competitors to Funcom in the large scale MMO-space, developers with the necessary skills, experience, and technological and financial resources in place, is limited, there is a risk that one or more of Funcom's games could be unsuccessful.

Dependence on success of *Age of Conan*

Funcom's future income is highly dependent on the success of the *Age of Conan* MMO. In itself, *Age of Conan* is expected to contribute with significant revenues and earnings, and if *Age of Conan* attains low subscriber numbers there will be a negative impact on future cash flows and the valuation of Funcom. Furthermore, the game is intended to be one of the funding sources for the development of other titles, and lower cash inflows than expected could also have an indirect effect in terms of reduced revenues, earnings and cash flows from other games and the future funding requirements of the Company.

Dependence on the attractiveness of the Conan brand

The success of the *Age of Conan* game is dependent on the attractiveness of the Conan brand. The Conan brand is owned by CPI and the overall brand development is therefore not in the control of Funcom, although Funcom contributes to brand development through its *Age of Conan* game.

Dependence on consumer satisfaction

The commercial success of Funcom's games is to a high degree dependent on consumer satisfaction. Consumer satisfaction is dependent on the perceived fun factor, quality of service of the support and error correction services. Even though the Company strives to ensure high consumer satisfaction there is a risk that the consumers will be unsatisfied with Funcom products, the support and the number of bugs and errors in the products. Consumer satisfaction may also be affected by the gaming community related to the game.

Rating risks

Funcom is, as a developer of mature games, exposed to the risk that rating agencies in the various markets will set the allowed age level to play the Funcom games too high or too low and thereby potentially limiting the addressable market. Rating agencies may also change their rating policies, or fine Funcom for rating breaches, although Funcom always strives to adhere to rating regulations. Funcom may also receive the attention of special interest organizations focusing on the gaming industry, both through PR campaigns and through legal procedures. Actions of disloyal employees or outside parties by introducing unknown and controversial material into

the games of the Company may constitute a risk for penalties or other actions from rating agencies.

Reviews

The commercial success of Funcom's MMOs may be, to a high degree, dependent on favorable reviews by the major gaming publications and sites. There are already very high expectations to Funcom's *Age of Conan* MMO, and should Funcom fail to meet the expectations this may have a negative effect in the review scores of the game and thereby potentially on the sales potential of the game.

Technological risks

The successful operation of an MMO depends on a large number of complicated hardware and software components that need to work successfully together. Any errors, bugs or viruses in any software may harm the operation of the MMOs and thus have an adverse effect on Funcom's ability to gain revenues. Similarly any errors, power failures, shortcuts etc. in any hardware component may harm the operation of the MMOs and thus have an adverse effect on Funcom's ability to gain revenues. Further, the games Funcom develop may not perform equally well on all PC configurations – impacting sales negatively. Although Funcom endeavors to reduce the technological risks before a game launch and during the operations of a game, these risks will always be present to some degree at launch

Hacking

Funcom's MMOs may be subject to hacking activities. Any hacking activity may affect Funcom's ability to operate its MMOs, which will affect Funcom's ability to gain revenues.

Risks related to the Internet

Funcom's MMOs are operated on the Internet. Funcom's revenues are therefore dependent on the continued and uninterrupted operation of the Internet. Any adverse incident, hereunder but not limited to bugs, viruses, worms, etc. affecting the Internet may affect Funcom's ability to gain revenues.

Theft or loss of source code

Funcom's source code is stored in a fireproof safe, but is also available to employees working on the Company's games. Should all or parts of the source code be stolen or lost, this may affect Funcom's ability to gain revenues or reduce its technological edge in the market.

Difficulties in recruiting and loss of key employees

Funcom is dependent on the ability to recruit, motivate and retain highly skilled technical, managerial and marketing personnel. Funcom may experience difficulties in recruiting, motivating and retaining the necessary expertise and key employees, or may need to pay higher compensation, which could adversely affect operating results. Further, it should be taken into consideration that work permits in the countries where Funcom has subsidiaries may be difficult to obtain. The documentation and formalization of internal information, routines and processes have not always been of today's standard. Therefore, there is a risk of losing vital information if key employees, for various reasons, leave Funcom.

International operations

Operations in international markets are subject to risks inherent in international business activities, including in particular general economic conditions in each such country, overlapping differing tax structures, managing an organization spread over various jurisdictions, currency fluctuations, and unexpected changes in regulatory requirements and complying with a variety of foreign laws and regulations.

Tax exposure

The Company is incorporated in the Netherlands with subsidiaries in Norway, Switzerland, Luxembourg and the USA. The overall tax charge will depend on where profits are accumulated and taxed since these countries have different tax systems and tax rates. The Funcom Group is today taxed under a number of different legal systems with different laws for tax residency, tax credits and tax exemption rules. Consequently, the Funcom Group is exposed to changes of tax policies and changes of tax legislations, proactively and/or retroactively. The Company is of the view that it reports profits and losses in accordance with tax rules applicable to the Funcom Group. The tax authorities in the jurisdictions where the Funcom Group operates are not bound by the judgment of the Company, and there can be no assurance that they will agree with it. If one or more of the relevant tax authorities challenges the Company's view, this may result in an increased overall tax charge.

Difficulties in enforcing the Company's intellectual property and proprietary rights

Funcom's success depends on its proprietary game technology. Funcom relies on a combination of trade secret, copyright and trademark laws, non-disclosure agreements and contractual provisions to protect its proprietary rights. International copyright and trademark laws protect Funcom's technology. Existing trade secrets and copyright laws afford only limited protection, and unauthorized parties may attempt to copy aspects of Funcom's proprietary rights or to obtain and use information and technology that Funcom regards as proprietary. In addition, the laws of some foreign jurisdictions do not protect Funcom's proprietary rights in the same manner and to the same extent as the laws of the US, Switzerland and Norway do. There can be no assurance that the steps taken by the Funcom to protect its proprietary rights will be adequate.

Intellectual Property Rights of others

Funcom operates in a competitive industry. Technology is evolving at a fast pace and innovating companies develop solutions in relatively close technological proximity.

This poses the risk that the Company could inadvertently encroach upon the protected rights of others, including rights protected by patents. This is the nature of the industry in which Funcom operates. Funcom is aware of the fact that there may be patents potentially forming basis of infringement claims. US patents and/or litigation in the US are particularly worrisome because there are a large number of US software patents in existence. There is also to a greater extent a culture for opportunistic patent litigation in the US. Infringement on copyrights, design rights and trademark law could surface as well. There is always an inherent risk of substantial claims related to infringement of intellectual property rights. Such claims could also have a negative impact on the various contracts of the company because infringement of intellectual property rights is likely to be construed as a material breach of contract.

Shareholders must rely upon their own examination of this Report and all other communications from Funcom and should study this carefully and should also study the gaming industry in general and the MMO gaming segment in particular. Shareholders should not construe the contents of this Report as legal, accounting or tax advice, or as information necessarily applicable to each potential investor's particular situation. Each potential investor should consult its own advisers for independent advice so that a balanced judgment can be made of a potential investment decision and all that is discussed and described in this report and in the communication from the Company. The Company urges investors to track the industry and gaming media to gain a thorough and independent understanding of the gaming industry, Funcom and its potential.