



Q1-2008

Summary

- The launch of *Age of Conan* is scheduled for May 20, 2008, and the game is currently in the late stage of Beta testing and development with focus on game polishing, external stress testing and overall preparation for launch.
- The market momentum for *Age of Conan* continues to grow. Judging by the size of the community and the overall press coverage, *Age of Conan* is currently the most anticipated MMO in the World. As is to be expected so close to the launch, the game is on top of the anticipation list on dedicated MMO sites. It also tracks very well in the mainstream gaming sites.
- Over 1 million people have submitted beta applications to *Age of Conan*. The company does not have exact aggregated numbers for all beta applications as some programs are executed through partners.
- Since January 2008 the *Age of Conan* site has had more than five million unique visitors with a total of over 70 million page views, according to Google Analytics. During the first week of May the site had 725,000 unique visitors.
- *Age of Conan* has received broad global press coverage which, in the opinion of Funcom has mostly been very positive. So far the game has been featured on more than 20 front page covers from gaming press around the world. For example, PC Gamer US gave the game the front cover as well as a 16 pages article in May 2008.

Financials

Funcom revenues in Q1, 2008 were TUSD 1,639, down from TUSD 1,793 in Q1, 2007. Group operating profit (EBIT) was TUSD -3,130 in Q1, 2008 compared to TUSD -1,213 in Q1, 2007, due to increased cost levels related to the build up for the *Age of Conan* launch. Earnings after Tax were TUSD 919 up from TUSD -223 in Q1 2007 mainly due to exchange rate fluctuations. The Group's financial position remains strong, and as of March 31, 2008, Funcom had TUSD 46,991 in cash.

Age of Conan highlights

- 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.
- In mid April Funcom passed the planned *Age of Conan* Gold master milestone and the game's gold

DVDs have been delivered for box production. At launch an online update will be available for downloading where additional bug-fixes and some additional content will be included.

- *Age of Conan* has received positive feedback from press across the world, as press and fans has been invited to play the game.
- An exclusive beta weekend with Gamespot.com, one of the world's most prominent game sites, was conducted successfully the weekend 18-20 April
- IGN and its partner Gamespy.com, also among the most prominent game sites of the world, hosted an exclusive 'Open Beta' event from May 1st to May 11th. 50,000 players participated. The game experienced some technical issues at the outset of the Open Beta, but these were to a large extent corrected during the 10 day period.
- Funcom has chosen not to conduct a broadest possible open beta. In the view of the Company this would have had a negative impact of the news value of the launch, but it may increase the technical risk of the launch somewhat.
- Funcom will at launch have scaled the server park for the *Age of Conan* game for handling 500,000-600,000 subscribers for the launch period, under a set of assumptions for playtime per subscriber, number of subscribers per server, number of subscribers per game clients sold etc.
- Funcom has received some pre-order data from its co-publisher SCi Eidos, but it does not have a complete aggregated global overview of the number of pre-orders for the game. Different retail chains in various markets have different processes with respect to collecting and reporting pre-order numbers. The Company interprets the data it has received as positive and is part of the data foundation for the scaling of the server park. The pre-order numbers in some retail chains track as among the highest for any MMO launched.
- Internal surveys indicate that a large proportion of the players who have tested the game would like to buy it. However, the beta tester segment may not necessarily be representative of the MMO gamer segment. Nevertheless, the Company interprets the survey feedback as positive.

Other Company highlights

- *The Secret World*, Funcom's 2nd large scale MMO in development progressed well in Q1 2008. Part of the team is now temporarily supporting the *Age of Conan* project.
- Funcom's casual game initiatives are in early development phase and they are progressing according to plan.
- Plutolife, Funcom's mobile subsidiary is experiencing progress in the US.

- Funcom, including Plutolife, grew from 302 employees at the start of Q1, 2008, to 322 employees as of March 31, 2008.

Market highlights

- In March 2008 EA Mythic announced that *Warhammer Online* was further delayed, and is now scheduled for a fall 2008 release.
- In Q1 2008, Eidos' parent company, SCi Entertainment PLC ("SCi") announced a restructuring of its business. In April it raised funds of £60 million. Funcom has received continued assurances from the SCi board and the management at Eidos that *Age of Conan* continues to be one of their most important titles for 2008. SCi/Eidos is Funcom's partner for retail distribution of the *Age of Conan* game.
- In January 2008 Blizzard Entertainment announced that the number of subscribers for its *World of Warcraft* MMO recently passed the 10 million mark worldwide. Vivendi Games who is now part of Vivendi/Activision and who is responsible of *Blizzard Entertainment* was valued at USD 8.12 billion in November 2007. *World of Warcraft* accounted for 85% of its revenues in the first nine months of 2007.

Outlook

Funcom will provide additional guiding after the launch of *Age of Conan* and before the Second Quarter 2008 reporting which is pushed forward to August 15th 2008. In the Second Quarter and in line with projection and plan, Funcom will see significant cost level increases in the area of sales & marketing, operations and customer support.

Key risks in the launch period:

- A key risk is potential technical issues related to network and servers and to client performance such as stability. Server stability has been satisfactory, but there is risk when servers are subject to unprecedented load during launch. Client stability is

continuously improving, but there is always risk that the newest code versions may reduce stability

- The performance of the game varies between high end configurations and low end configurations, and performance issues may impact subscriber uptake.

Key risks in the period after the launch:

- Post launch, the quality of gameplay, and thereby the longevity of the average subscription is a key risk. The Company acknowledges that there is high uncertainty in future subscriber level and revenue projections. Positive pre-order numbers and anticipation levels may not necessarily lead to high subs numbers.
- The ability of the Company to quickly address potential technical issues is also a risk after the launch period.

For more information regarding the risk profile of the Company and its games, see document 'Funcom Risk Overview' at www.funcom.com under Investor Relations, similar to the one presented in the IPO prospectus of December 2005 with appropriate amendments.

Funcom will not take investor and analyst meetings in the period from May 4th 2008 until May 30th 2008 due to the very sensitive nature of that time period except for the presentation of this report.

The Supervisory Board of Funcom N.V.
Dübendorf, May 12, 2008

For more information, please contact:

This report is also available at <http://www.newsweb.no>

Investors are encouraged to seek information regarding the company and the industry.

- *For more information about Funcom, its games, its organization, please see www.funcom.com*
- *For more information about the Age of Conan game, please see www.ageofconan.com*

FUNCOM N.V. - FIRST QUARTER FINANCIALS OF 2008
PRELIMINARY, NOT AUDITED, FIGURES

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	First quarter		Full Year
	2008	2007	2007
Revenues, PC/Console	963	1,194	4,621
Revenues, Mobile	676	599	2,274
Total Operating Revenues	1,639	1,793	6,895
Operating expenses	-4,199	-2,619	-12,722
Depreciation, amortization and write down	-570	-387	-1,635
Total operating expenses	-4,769	-3,006	-14,357
Earnings Before Interest and Tax ("EBIT")	-3,130	-1,213	-7,462
Net financial items	2,967	909	7,625
Earnings Before Tax ("EBT")	-163	-303	163
Taxes	1,082	81	2,001
Earnings After Tax ("EAT")	919	-223	2,164
Attributable to minority interest	-33	-19	-154
Attributable to shareholders of Funcom N.V.	952	-204	2,318
Earnings per share (USD)	0.02	0.00	0.05
Earnings per share fully diluted (USD)	0.02	0.00	0.04
Average number of shares (1000)	52,770	47,745	50,087
Average number of shares fully diluted (1000)	54,683	49,995	52,000

BALANCE SHEET <i>(Figures in TUSD)</i>	31-Mar		Full Year
	2008	2007	2007
ASSETS			
Deferred tax asset	5,627	2,661	4,509
Other intangible assets	41,273	22,850	35,697
Tangible fixed assets	4,595	1,157	4,166
Long-term receivables	494	423	469
Trade debtors	1,230	900	977
Prepayments and other receivables	2,015	1,939	2,067
Cash and cash equivalents	46,991	33,201	52,366
Total assets	102,225	63,131	100,251
EQUITY AND LIABILITIES			
Paid in capital	124,664	94,492	124,384
Other reserves	-31,096	-35,423	-32,299
Equity attributable to minority interest	33	202	62
Long-term liabilities	1,627		1,618
Short-term liabilities	6,997	3,860	6,486
Total equity and liabilities	102,225	63,131	100,251

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	31-Mar		Full Year
	2008	2007	2007
Cash flow from operating activities	-448	-733	-2,587
Cash flow from investing activities	-6,082	-4,090	-18,055
Cash flow from financing activities	-267		29,237
Change in cash and cash equivalents	-6,797	-4,823	8,595
Cash and cash equivalents, beginning of period	52,366	37,423	37,423
Effect of exchange rate fluctuations on cash held	1,422	601	6,348
Cash and cash equivalents, end of period	46,991	33,201	52,366

EQUITY <i>(Figures in TUSD)</i>	31-Mar		Full Year
	2008	2007	2007
Opening balance	92,147	59,313	59,313
Net profit/loss attributable to the parent company	953	-205	2,318
Equity issues			29,372
Changes in minority interest	-29	6	-134
Other	530	157	1,278
Closing balance	93,601	59,271	92,147

INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i>	Q1	Q2	Q3	Q4	Q1
	2007	2007	2007	2007	2008
Revenues, PC/Console	1,194	1,084	1,176	1,167	963
Revenues, Mobile	599	509	588	578	676
Total operating revenues	1,793	1,593	1,764	1,745	1,639
Sales growth quarter by quarter (%)	-16.4 %	-11.2 %	10.7 %	-1.1 %	-6.0 %
EBIT PC/Console	-1,086	-1,316	-1,504	-2,822	-2,953
EBIT Mobile	-127	-144	-270	-193	-177
EBIT Total	-1,213	-1,460	-1,774	-3,015	-3,130

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 2008 were approved for issue by the supervisory board on 12 May 2008.

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 2008 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 2007 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

Most 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. All tax assets are denominated in primarily Swiss Franc and Norwegian kroner. The weakening of US Dollars compared to Norwegian kroner and Swiss Franc has resulted in a significant increase in the tax assets.

7 Cash flows

The increased cash expenditures related to investing activities compared to the same period in 2007 are mainly a result of more personnel working on developing *Age of Conan* and the *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.