



Q2-2008

Summary

- Funcom launched the *Age of Conan* game on May 20. The launch was very successful and was the largest MMO launch since *World of Warcraft*, and one of the largest PC game launches in this decade.
- Revenues in the second quarter 2008 (Q208) were TUSD 13.010, approximately TUSD 1.000 higher than previously guided. The difference is mainly due to higher box revenues than anticipated. The EBIT in Q208 is TUSD -5.730 and within the range of guidance.
- So far the game has sold through over 800.000 copies and has currently more than 415.000 customers.
- Revenue in the third quarter of 2008 (Q308) is expected to be between TUSD 16.000 and TUSD 20.000. The dominating revenue stream will be subscription revenues for the *Age of Conan* game.
- Key success factors going forward will be Funcom's ability to maximize the average longevity of subscription as well as the continued rate of customer acquisition.

Financials Q2 2008

- Funcom revenues in Q208 were TUSD 13.010, up from TUSD 1.593 in Q207, mainly due to box revenues from the launch of the *Age of Conan* game.
- Group operating profit (EBIT) was TUSD -5.730 in Q208 compared to TUSD -1.460 in Q207, due to increased cost levels related to the *Age of Conan* launch.
- Earnings after Tax were TUSD -7.191 down from TUSD 776 in Q207.
- The Group's financial position remains strong, and as of June 30, 2008, Funcom had TUSD 36.392 in cash.

Age of Conan highlights

- Funcom launched the *Age of Conan* game in Europe and in the US without major technical launch issues.
- The game received generally strong review scores and the community build-up was extraordinarily strong.
- Funcom will, as previously stated, for marketing and competitive reasons in the future not on a regular basis disclose information about subscriber numbers and also not provide detailed financial guidance. Due to Q208 being the first quarter following the introduction of the *Age of Conan* game, the Company has decided to provide such information.

- So far the game has sold-in (to retail and digitally) over 1.2 million copies and has sold through over 800.000 copies (i.e. customers that since launch have bought a game client and entered their game client key and payment details into Funcom's billing database). The game currently has more than 415.000 customers (players who are either subscribers or are playing in the first 30 days included in the sale of the box).
- To maximize the average longevity of subscription Funcom will continue to expand, improve and adjust the product, as well as address key issues in the game on a running basis. So far Funcom has issued patches on average once a week, and will continue to commit enhancements and corrections to the game as a response to player and community feedback that is monitored through surveys and community analysis. Focus areas going forward will be on the high end parts of the game as well as items and general bug-fixing. Average playtime per player has been lower than expected. Potential influencing factors may be the high average age of subscribers (29 years), aspects of the game, summer holidays, etc.
- The game topped the sales lists in all major markets in the launch weeks. To maximize the rate of customer acquisition going forward Funcom will among other initiatives enter new markets such as Russia and Poland with localized versions, and optimize the Company's sales and marketing initiatives.
- Funcom is currently in negotiations with local publishers in the most important Asian markets with the goal of launching the game in Asia in the second half of 2009. Funcom is also in the early development phase of the Xbox 360 version of *Age of Conan* game.

Other Company highlights

- In July, Plutolife, a subsidiary of Funcom N.V., was sold to Jumbuck Entertainment Ltd. Funcom had a 74,98% stake in Plutolife AS. The acquisition consists of an initial consideration of TUSD 3.700 in cash payments phased over the next 12 months, TUSD 600 of which is an injection of working capital. The activities of Plutolife are consolidated in Funcom's Q208 financials.
- Funcom's casual game-initiatives are progressing according to plan. Two casual MMO games are expected to be released in 2009.
- *The Secret World*, Funcom's next full-fledged MMO is progressing according to plan. The team size of *The Secret World* is currently being ramped up.
- Funcom, including Plutolife and excluding customer service personnel hired as a launch buffer, has

grown from 282 at the start of Q208 to 291 employees as of June 30th, 2008.

Outlook

- The revenue in the Q308 will depend on the key success factors; customer acquisition and retention rate. Based on the development after launch of these factors, revenues are expected to be between TUSD 16.000 and TUSD 20.000. The dominating revenue stream will be subscription revenues for the *Age of Conan* game. The results of Plutolife will not be included in the Q308 financials.
- Funcom will seek to launch localized versions of the *Age of Conan* game in Poland and Russia by year end 2008.

For 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.

***The Supervisory Board of Funcom N.V.
Dübendorf, August 14, 2008***

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. - SECOND QUARTER FINANCIALS OF 2008
PRELIMINARY, NOT AUDITED, FIGURES

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	Second quarter		Accumulated		Full Year
	2008	2007	2008	2007	2007
Revenues, PC/Console	12,231	1,084	13,112	2,278	4,621
Revenues, Mobile	779	509	1,538	1,108	2,274
Total Operating Revenues	13,010	1,593	14,650	3,386	6,895
Operating expenses	-14,886	-2,705	-19,085	-5,324	-12,722
Depreciation, amortization and write down	-3,854	-348	-4,424	-735	-1,635
Total operating expenses	-18,740	-3,053	-23,509	-6,059	-14,357
Earnings Before Interest and Tax ("EBIT")	-5,730	-1,460	-8,859	-2,673	-7,462
Net financial items	613	1,139	3,580	2,048	7,625
Earnings Before Tax ("EBT")	-5,117	-321	-5,279	-625	163
Taxes	-2,074	1,097	-992	1,178	2,001
Earnings After Tax ("EAT")	-7,191	776	-6,271	553	2,164
Attributable to minority interest	-25	-43	-57	-62	-154
Attributable to shareholders of Funcom N.V.	-7,166	819	-6,214	615	2,318
Earnings per share (USD)	-0.14	0.02	-0.12	0.01	0.05
Earnings per share fully diluted (USD)	-0.13	0.02	-0.11	0.01	0.04
Average number of shares (1000)	52,770	47,881	52,770	49,788	50,087
Average number of shares fully diluted (1000)	54,683	49,856	54,683	49,856	52,000

BALANCE SHEET <i>(Figures in TUSD)</i>	30-Jun		Full Year
	2008	2007	2007
ASSETS			
Deferred tax asset		3,982	4,509
Other intangible assets		44,772	35,697
Tangible fixed assets		5,758	4,166
Long-term receivables		498	469
Trade debtors		18,204	977
Prepayments and other receivables		1,969	2,067
Cash and cash equivalents		36,392	52,366
Total assets		111,575	100,251

EQUITY AND LIABILITIES			
Paid in capital		124,904	124,384
Other reserves		-38,080	-32,299
Equity attributable to minority interest		11	62
Long-term liabilities		2,915	1,618
Short-term liabilities		21,825	6,486
Total equity and liabilities		111,575	100,251

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	30-Jun		Full Year
	2008	2007	2007
Cash flow from operating activities	-6,044	-508	-2,587
Cash flow from investing activities	-17,659	-8,642	-18,055
Cash flow from financing activities	5,599	161	29,237
Change in cash and cash equivalents	-18,104	-8,989	8,595
Cash and cash equivalents, beginning of period	52,366	37,423	37,423
Effect of exchange rate fluctuations on cash held	2,130	1,425	6,348
Cash and cash equivalents, end of period	36,392	29,859	52,366

EQUITY <i>(Figures in TUSD)</i>	30-Jun		Full Year
	2008	2007	2007
Opening balance	92,147	59,313	59,313
Net profit/loss attributable to the parent company	-6,213	615	2,318
Equity issues		161	29,372
Changes in minority interest	-51	-80	-134
Other	952	288	1,278
Closing balance	86,835	60,297	92,147

INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i>	Q2	Q3	Q4	Q1	Q2
	2007	2007	2007	2008	2008
Revenues, PC/Console	1,084	1,176	1,167	963	12,231
Revenues, Mobile	509	588	578	676	779
Total operating revenues	1,593	1,764	1,745	1,639	13,010
Sales growth quarter by quarter (%)	-11.2 %	10.7 %	-1.1 %	-6.0 %	693.8 %
EBIT PC/Console	-1,316	-1,504	-2,822	-2,953	-5,689
EBIT Mobile	-144	-270	-193	-177	-41
EBIT Total	-1,460	-1,774	-3,015	-3,130	-5,730

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 2008 were approved for issue by the supervisory board on 14 August 2008.

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 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 revenue

The large increase in revenue is due to release of *Age of Conan*. The revenue mainly consists of royalties from sales of boxes and sales of subscriptions.

4 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.

5 Depreciation, amortization and write down

The Group amortizes capitalized game investment over the period of the estimated future economic benefit. The amount includes write down of TUSD 1,670 in Q2. The write down is related to hardware.

6 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.

7 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. Tax cost in Q2 primarily is related to re-evaluation of tax-benefits relating to the reorganization steps implemented (the establishment of Funcom Sales).

8 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.