



Q3-2008

Summary

- Revenues in the third quarter of 2008 (Q308) were TUSD 18.065. The EBITDA in Q308 was TUSD 7.761.
- The Company's financial position remains strong, with TUSD 34.779 in cash as of September 30, 2008.
- After the very strong launch period, the average subscription period for *Age of Conan* has been shorter than expected and this has led to a reduction in subscriber levels in the period.
- The Company is proactively addressing the issues with subscription longevity in *Age of Conan* and expect this key value driver to improve significantly in 2009.

Financials Q3 2008

- Funcom revenues in Q308 were TUSD 18.065, up from TUSD 1.176 in Q307, mainly due to subscription revenues from the *Age of Conan* game.
- Funcom EBITDA was TUSD 7.761 in Q308 compared to TUSD -1.222 in Q307.
- Funcom operating profit (EBIT) was TUSD 5.331 in Q308 up from TUSD -1.504 in Q307.
- Earnings after Tax (EAT) were TUSD 2.763 compared to TUSD 4.299 in Q307. Exchange rate effects have impacted EAT negatively with TUSD 3.443 in this period. The Company has a large cash position in NOK, and as the USD has appreciated significantly in value in the last quarter, this impacts the cash position in USD negatively.
- The Company's financial position remains strong, with TUSD 34.779 in cash as of September 30, 2008. Payment from Eidos for box revenues in Q208 has been received after Q308.
- The Q308 results indicate the high degree of scalability in the business model for MMOs such as *Age of Conan*.
- *Age of Conan* is a large intangible asset in the balance sheet of the Company. An impairment evaluation of the asset has been performed, and did not lead to any adjustments of the book value.

Age of Conan highlights

- *Age of Conan* was launched in May 2008 in Europe and the US.
- *Age of Conan* had a strong reception in the market place, where it topped the sales charts in all major markets and received strong reviews.
- In the period following the launch period, the average subscription period has been lower than expected leading to a reduction in number of subscribers.

- The Company has a clear analysis of the issues that have affected subscription longevity negatively and is well underway in addressing those issues.
- In September 2008 Mr. Craig Morrison replaced Mr. Gaute Godager as Producer and Game Director for *Age of Conan*. Mr. Morrison has extensive experience as a Producer and Game Director for *Anarchy Online* over several years, and his entry has been well received by the game community.
- In November Funcom has signed an agreement with Neowiz, a leading Korean publisher which has obtained the right to sell and operate *Age of Conan* for a five year period in Korea. A final launch date for this market is not yet set, but will be some time after the launch of the first expansion pack in the western world. The agreement includes a minimum commitment, to be paid up front. Funcom also plans to launch the game in other key Asian markets.
- The Company's sales and marketing initiatives will focus on launches in new territories, as well as revitalizing *Age of Conan* in existing core markets through acquisition, winback and retention initiatives.

Other Company highlights

- In July, Plutolife, a subsidiary of Funcom N.V., was sold to Jumbuck Entertainment Ltd. The activities of Plutolife are hence not consolidated in Funcom's Q308 financials.
- Funcom's casual game-initiatives are progressing well. Two casual MMO games are expected to be released in the fourth quarter of 2009.
- *The Secret World*, Funcom's next full-fledged MMO is progressing well. The game's team size has increased to 70 people in Q3. *The Secret World* will use the next version of the proprietary Dreamworld technology that was developed for *Age of Conan* as the core game engine. This will reduce the technical risk of the project significantly.
- Number of employees, excluding customer service personnel, has increased from 291 at the start of Q308 to 318 as of September 30, 2008.

Outlook

- Based on the development of key factors after launch and in Q308 specifically, revenues are expected to be between TUSD 8.000 and 10.000 in Q408. The dominating revenue stream will be subscription revenues from *Age of Conan*. The Company has initiated cost reduction initiatives to adjust the cost base to better reflect the anticipated revenue levels from its major games. No major restructuring costs are expected due to these cost reduction initiatives.

- The Company considers the financial resources to be sufficient to develop, complete and launch the MMOs in development.
- Funcom will seek to launch localized versions of *Age of Conan* in Poland and Russia by the first quarter of 2009.

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.
Thalwil, November 11, 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. - THIRD QUARTER FINANCIALS OF 2008
PRELIMINARY, NOT AUDITED, FIGURES

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	Third quarter		Accumulated		Full Year
	2008	2007	2008	2007	2007
Revenues	18 065	1 176	31 260	4 042	4 621
Operating expenses	-10 304	-2 398	-27 933	-7 162	-10 116
Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA")	7 761	-1 222	3 327	-3 120	-5 495
Depreciation, amortization and write down	-2 429	-282	-6 635	-786	-1 233
Total operating expenses	-12 733	-2 680	-34 568	-7 948	-11 349
Earnings Before Interest and Tax ("EBIT")	5 331	-1 504	-3 308	-3 906	-6 728
Net financial items	-3 175	5 481	459	7 547	7 727
Earnings Before Tax ("EBT")	2 158	3 977	-2 849	3 641	999
Taxes	605	322	-417	1 433	1 681
Earnings After Tax Continued Operations	2 763	4 299	-3 266	5 074	2 680
Profit from discontinued operations	506	-357	264	-580	-516
Earnings After Tax and Discontinued Operations	3 269	3 942	-3 002	4 494	2 164
Attributable to minority interest		-71	-57	-132	-154
Attributable to shareholders of Funcom N.V.	3 269	4 013	-2 944	4 626	2 318
Earnings per share (USD)	0,06	0,08	-0,07	0,09	0,05
Earnings per share fully diluted (USD)	0,06	0,07	-0,07	0,09	0,04
Average number of shares (1000)	52 770	52 177	52 770	49 196	50 087
Average number of shares fully diluted (1000)	54 683	54 152	54 683	51 171	52 000

BALANCE SHEET <i>(Figures in TUSD)</i>	30-Sep		Full Year
	2008	2007	2007
ASSETS			
Deferred tax asset	4 129	4 121	4 509
Other intangible assets	43 646	30 812	35 697
Tangible fixed assets	5 042	1 444	4 166
Long-term receivables	445	471	469
Trade debtors	13 853	1 007	977
Prepayments and other receivables	2 556	1 953	2 067
Cash and cash equivalents	34 779	58 533	52 366
Total assets	104 450	98 341	100 251
EQUITY AND LIABILITIES			
Paid in capital	124 978	124 406	124 384
Other reserves	-35 270	-30 086	-32 299
Equity attributable to minority interest		34	62
Long-term liabilities	2 776	158	1 618
Short-term liabilities	11 966	3 829	6 486
Total equity and liabilities	104 450	98 341	100 251

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	30-Sep		Full Year
	2008	2007	2007
Cash flow from operating activities	-5 214	-933	-2 587
Cash flow from investing activities	-10 670	-13 071	-18 055
Cash flow from financing activities	-1 561	29 496	29 237
Change in cash and cash equivalents	-17 444	15 492	8 595
Cash and cash equivalents, beginning of period	52 366	37 423	37 423
Effect of exchange rate fluctuations on cash held	-143	5 618	6 348
Cash and cash equivalents, end of period	34 779	58 533	52 366

EQUITY <i>(Figures in TUSD)</i>	30-Sep		Full Year
	2008	2007	2007
Opening balance	92 147	59 313	59 313
Net profit/loss attributable to the parent company	-2 944	4 626	2 318
Equity issues		29 339	29 372
Changes in minority interest	-62	-162	-134
Other	567	1 238	1 278
Closing balance	89 708	94 354	92 147

INTERIM SEGMENT RESULTS <i>(Figures in TUSD)</i>	Q3	Q4	Q1	Q2	Q3
	2007	2007	2008	2008	2008
Revenues, PC/Console	1 176	1 167	963	12 231	18 065
Revenues, Mobile	588	578	676	779	
Total operating revenues	1 764	1 745	1 639	13 010	18 065
Sales growth quarter by quarter (%)	10,7 %	-1,1 %	-6,0 %	693,8 %	38,9 %
EBIT PC/Console	-1 504	-2 822	-2 953	-5 689	5 331
EBIT Mobile	-270	-193	-177	-41	
EBIT Total	-1 774	-3 015	-3 130	-5 730	5 331

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 for the Company for the nine months ended September 30, 2008 were approved for issue by the supervisory board on November 11, 2008.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the nine months ended September 30, 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 Company'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 Company, 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 compared to the prior year 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 related to Age of Conan.

5 Depreciation, amortization and write down

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

The increase in depreciation, amortization and write down compared to 2007 is mainly due to amortization of Age of Conan, depreciation of equipment used in the operation of Age of Conan and a write down of TUSD 1,670 in Q2. The write down is related to hardware.

6 Net financial items

A significant part of Funcom's cash and cash equivalents are denominated in Norwegian kroner. Net financial items have been affected by the substantial exchange rate fluctuation between US Dollars and Norwegian kroner. The Company's NOK cash holding is a natural hedge against the expectedly large proportion of future operating expenses arising in NOK.

7 Profit from discontinued operations

Profit from discontinued operations is related to the sale of Plutolife a former subsidiary of Funcom N.V. No figures for Plutolife is included in the earnings after tax for continued operations in this report. The mobile segment only consisted of Plutolife.

8 Taxes

Funcom's assessment is that it will be able to utilize the Company's accumulated tax losses against future profits. The accumulated deferred tax asset 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.

9 Cash flows

The cash flow from operating activities is affected by payment of box revenues received after Q3 2008. Cash flows from discontinued operations are included in the cash flow statement with the following amounts:

	30. Sep. 2008 (9 months)	30. Sep. 2007 (9 months)	Full year 2007 (12 months)
Cash flow from operating activities	-103 927	-87 959	-144 418
Cash flow from investing activities	0	-94 828	-99 547
Cash flow from financing activities	57 766	157 801	157 801

When preparing this report an error in the cash flows for investing and financing activities in the Q2 2008 report was discovered. The reported amounts were respectively USD -17.659 and USD 5.599. The correct amounts are USD -11.191 and USD -869. The reported year to date cash flows as of September 30, 2008 are correct.