



Q1-2009

Summary

- Revenues for the first quarter of 2009 (Q109) were 7,725 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was 2,898 TUSD.
- The Company's financial position remains strong, with 39,636 TUSD in cash as of March 31, 2009.
- Improved subscriber retention for *Age of Conan* and a significant increase in new customers in Q1 compared to Q4 has led to a stable and solid subscriber base during the first 4 and a half months of 2009. The average player also spends more time in the game.
- The second phase of the reveal campaign for *The Secret World* was launched successfully during the Game Developer Conference in San Francisco in April 2009. The coverage and feedback from the reveal was positive and indicates a strong market potential for the game.
- The Company has a defined investment program, including continued investments in *Age of Conan*, *The Secret World* and other MMOs, and considers the financial resources to be sufficient to complete and launch the MMOs in development.

Financials Q1 2009

- Revenues for Q109 were 7,725 TUSD, up from 963 TUSD for the first quarter of 2008 (Q108), mainly due to subscription revenues from *Age of Conan*.
- EBITDA was 2,898 TUSD compared to -2,553 TUSD in Q108.
- Operating profit (EBIT) was 1,439 TUSD in Q109 compared to -2,953 TUSD in Q108. Revenues and EBIT was positively impacted by a revaluation of expected returns on box sales and a recalculation of royalty of 800 TUSD relating to sales in Q2 and Q3 2008 performed by the publisher in Q109.
- Profit for the period was 1,468 TUSD compared to 919 TUSD in Q108. The Q108 result was affected by a significant gain on currency and capitalization of deferred tax assets.
- The Company's financial position remains strong, with 39,636 TUSD in cash as of March 31, 2009. The cash position has improved slightly from the beginning of the quarter.

Age of Conan highlights

- The subscriber level of *Age of Conan* has been stable during 2009 and the average playtime per subscriber and the average subscription period have improved.
- The Company continues to invest heavily in *Age of Conan* and has around 120 full time employees working on the game, excluding customer service. The Company believes that the continued investment in *Age of Conan* has led to the improved customer retention observed during 2009. The

Company has planned for significant additional enhancements during the coming months that are expected to improve subscriber retention further.

- The digital trial for *Age of Conan* was launched on April 2 2009, giving MMO players an opportunity to test the game for free for a certain period, after which they are offered to upgrade to the full version of the game. Conversion rates from trials to paying subscribers have been encouraging, but volumes are as expected still limited due to the size of the trial client download.
- A key focus for the Company is to reduce the size of the client download to facilitate further increase in the number of digital downloads.
- Funcom also focuses on optimizing the digital sales pipeline to further improve conversions to paying customers from the current quite attractive levels.
- During the next months, the Company will also run revaluation campaigns for the game towards the large prospect base of former customers.
- The Company launched localized versions of *Age of Conan* in Poland and Russia in January and February 2009 respectively with positive gamer and press reception. The Company has just initiated PR incentives in these territories in the form of a special country vs. country battle server.
- In November 2008 Funcom 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. The Company received one portion of a minimum guaranteed royalty in Q109 and expects to receive the remaining in Q209.

The Secret World highlights

- *The Secret World*, Funcom's next full-fledged MMO is progressing according to plan. The game's team size is around 100 people. *The Secret World* will use the next version of the proprietary *Dreamworld* game engine that was developed for *Age of Conan*, which significantly reduces the technical risk of the project.
- The second phase of the reveal campaign for *The Secret World* was launched successfully in April 2009 after the Game Developer Conference in San Francisco. The Global press was invited to presentations held behind closed doors where Funcom revealed artworks, videos and substantial game play information.
- As a result, *The Secret World* received broad coverage at some of the world's largest editorial gaming sites, including main story presence on sites such as GameSpot, IGN, Eurogamer, and GameTrailers. The first video material for the game was also released, generating substantial attention among the gaming press and players in general. The Company roughly estimates that

between around 1.000.000 people saw the announcement game video.

- Based on feedback from the reveal, the Company considers that the market potential for *The Secret World* game concept has been confirmed.
- Funcom is planning more publicity and community initiatives throughout the year.

Other Company highlights

- The Company's free-to-play game initiatives are progressing well. The two free-to-play MMO-games in development are expected to be beta-released during Q409. The games will be progressively opened to more players over time. The timing for this will depend on feedback during the beta-phase.
- The fifth booster/expansion for "Anarchy Online" was successfully launched in February 2009. Titled "Legacy of the Xan", the expansion featured more content aimed at veteran players, including content such as new land areas, new quests, and more rewards. "Anarchy Online" is during the second quarter of 2009 entering its ninth year of operations.
- The number of employees, excluding customer service personnel, is down from 302 at the start of Q109 to 296 as of March 31, 2009.

Outlook

- The gaming industry is considered to be less affected by the macro economic downturn than many other industries. The retail based parts of the gaming industry is expected to be more influenced than the online segment, as playing online games is still considered as a "low budget" form of entertainment in a cost per hour perspective.
- The online gaming market continues to experience fast growth. Segments such as Facebook games and micro-transaction turn based games have grown significantly in the last quarters. A younger demographic is also introduced to MMOs through game concepts such as Wizard101, FreeRealms, Fusionfall etc. The Company views this

development as positive, as the total number of prospective customers grows quickly.

- The tougher financial environment has limited available funds for investments into online gaming, which will limit the increase in competition in the online segment.
- The Company's revenues in Q209 are expected to be between 5.000 and 7.000 TUSD. Revenues will mainly be related to subscription revenues from *Age of Conan*.
- The Company has a defined investment program, including continued investments in *Age of Conan* and new MMOs, and considers the financial resources to be sufficient to complete and launch the MMOs in development.
- Funcom has previously demonstrated that the Company has the necessary ability to adjust its cost levels to the performance of its games and will also in the future track and adjust its cost base depending on the performance of its games in operation.

For information regarding the risk profile of the Company and its games, see document 'Funcom Risk Overview' at www.funcom.com under Investor Relations.

The Supervisory Board of Funcom N.V.
Zürich, May 14, 2009

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 2009
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| <i>(Figures in TUSD)</i> | First quarter | | Accumulated | | Full Year |
|--|---------------|---------------|--------------|---------------|----------------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| Revenue | 7 725 | 963 | 7 725 | 963 | 39 925 |
| Operating expenses | -4 827 | -3 516 | -4 827 | -3 516 | -37 197 |
| Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) | 2 898 | -2 553 | 2 898 | -2 553 | 2 728 |
| Depreciation, amortization and impairment charges | -1 459 | -400 | -1 459 | -400 | -29 436 |
| Operating result ("EBIT") from continuing operations | 1 439 | -2 953 | 1 439 | -2 953 | -26 707 |
| Net financial items | 145 | 2 917 | 145 | 2 917 | -3 260 |
| Profit (loss) before income taxes from continuing operations | 1 584 | -36 | 1 584 | -36 | -29 967 |
| Income taxes | -117 | 1 038 | -117 | 1 038 | -4 152 |
| Profit (loss) from continuing operations | 1 468 | 1 002 | 1 468 | 1 002 | -34 119 |
| Profit from discontinued operation, net of tax | 0 | -83 | 0 | -83 | 264 |
| Profit (loss) for the period | 1 468 | 919 | 1 468 | 919 | -33 855 |
| Attributable to non-controlling interests | 0 | -33 | 0 | -33 | -57 |
| Attributable to shareholders of Funcom N.V. | 1 468 | 952 | 1 468 | 952 | -33 798 |
| Earnings per share basic (USD) | 0,03 | 0,02 | 0,03 | 0,02 | -0,64 |
| Earnings per share fully diluted (USD) | 0,03 | 0,02 | 0,03 | 0,02 | -0,64 |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | | | | |
|--|--------------|--------------|--------------|--------------|----------------|
| Profit (loss) for the period | 1 468 | 919 | 1 468 | 919 | -33 855 |
| Foreign exchange translation difference | 1 019 | 241 | 1 019 | 241 | -926 |
| Total comprehensive income for the period | 2 487 | 1 160 | 2 487 | 1 160 | -34 781 |
| Attributable to non-controlling interests | 0 | -41 | 0 | -41 | -57 |
| Attributable to shareholders of Funcom N.V. | 2 487 | 1 202 | 2 487 | 1 202 | -34 724 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| <i>(Figures in TUSD)</i> | 31-Mar. | | 31-Dec. |
|-------------------------------------|---------|---------------|----------------|
| | 2009 | 2008 | 2008 |
| ASSETS | | | |
| <u>Non-current assets</u> | | | |
| Deferred tax asset | | 300 | 5 627 |
| Intangible assets | | 30 072 | 41 273 |
| Tangible fixed assets | | 1 879 | 4 595 |
| Long term receivables | | 440 | 494 |
| <u>Current assets</u> | | | |
| Trade receivables | | 1 827 | 1 230 |
| Prepayments and other receivables | | 1 231 | 2 015 |
| Cash and cash equivalents | | 39 636 | 46 991 |
| Total assets | | 75 386 | 102 225 |
| EQUITY AND LIABILITIES | | | |
| <u>Equity</u> | | | |
| Paid in capital | | 125 396 | 124 664 |
| Reserves | | 133 | 932 |
| Retained earnings | | -64 539 | -32 028 |
| Non-controlling interests | | 0 | 33 |
| <u>Liabilities</u> | | | |
| Deferred tax liabilities | | 50 | 0 |
| Long-term liabilities | | 270 | 1 627 |
| Short-term liabilities | | 14 076 | 6 997 |
| Total equity and liabilities | | 75 386 | 102 225 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| <i>(Figures in TUSD)</i> | First quarter | | Period ended 31-Mar. | | Full Year |
|---|---------------|--------|----------------------|--------|-----------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| Cash flow from operating activities | 4 465 | -448 | 4 465 | -448 | 9 553 |
| Cash flow from investing activities | -4 053 | -6 082 | -4 053 | -6 082 | -14 357 |
| Cash flow from financing activities | -767 | -267 | -767 | -267 | -3 640 |
| Change in cash and cash equivalents | -356 | -6 797 | -356 | -6 797 | -8 444 |
| Cash and cash equivalents, beginning of period | 39 396 | 52 366 | 39 396 | 52 366 | 52 366 |
| Effect of exchange rate fluctuations on cash held | 596 | 1 422 | 596 | 1 422 | -4 526 |
| Cash and cash equivalents, end of period | 39 636 | 46 991 | 39 636 | 46 991 | 39 396 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| <i>(Figures in TUSD)</i> | 31-Mar. | | Full Year |
|---|---------|--------|-----------|
| | 2009 | 2008 | 2008 |
| Opening balance | 58 353 | 92 147 | 92 147 |
| Total comprehensive income for the period | 2 487 | 1 202 | -34 724 |
| Equity issues | 0 | 0 | 40 |
| Changes in non-controlling interests | 0 | -29 | -62 |
| Other | 150 | 282 | 952 |
| Closing balance | 60 990 | 93 601 | 58 353 |

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 principal 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 three months ended March 31, 2009 were approved for issue by the Supervisory Board on May 14, 2009.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the three months ended March 31, 2009 have been prepared in accordance with 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 with those used in the 2008 annual report, except for the impact of the adoption of the Standards described below.

The Supervisory Board has determined that the functional currency of the Swiss subsidiary Funcom GmbH is Norwegian kroner (NOK), effective from 1 January 2009. The previous functional currency was US dollar. The change in functional currency is due to NOK emerging as the dominating currency for the transactions of Funcom GMBH.

The Group has as of January 1, 2009 adopted the amended IAS 1 and IFRS 8, the impact of which is as follows:

- IAS 1 (revised 2007) has introduced a number of terminology changes including revised titles for the condensed financial statements and has resulted in changes to the presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.
- IFRS 8 – please refer to note 11.

All amounts are in USD'000 unless stated otherwise. There may be some minor rounding differences or the total may deviate from the total of the individual amounts. This is due to the rounding to whole thousands of individual amounts.

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 equity transactions are recognized directly in equity after deducting tax.

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 up front revenues are recognized in the statement of financial position as a liability.

3 Operating revenue

The large increase in revenue this quarter compared to the prior year is due to launch of Age of Conan. The revenue mainly consists of royalties from box sales and sales of subscriptions.

4 Operating expenses

The increase in operating expenses this quarter is mainly related to the operation of Age of Conan.

5 Depreciation, amortization and impairment charges

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

The increase in depreciation, amortization and impairment charges this quarter compared to 2008 is mainly due to amortization of Age of Conan.

6 Net financial items

A significant part of Funcom's cash and cash equivalents are denominated in 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 relates to the sale of Plutolife in Q3 2008, a former subsidiary of Funcom N.V. No figures for Plutolife are included in the profit from continuing operations.

8 Taxes

It is Funcom's assessment that the Company according to IAS 12 only can recognize a part of the tax value of the carry forward tax losses. The recognized deferred tax asset is a result of an evaluation of tax losses and temporary differences between book value of assets and their tax values. 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 royalty from box revenues received in Q1 2009. Cash flows from discontinued operation included in the cash flow statement are considered insignificant.

10 Average numbers of shares

| | First quarter | | Accumulated | | Full year |
|---------------------------------|---------------|--------|-------------|--------|-----------|
| | 2009 | 2008 | 2009 | 2008 | 2008 |
| Average number of shares (1000) | 52 832 | 52 770 | 52 832 | 52 770 | 52 785 |

11 Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. Following the adoption of IFRS 8, the identification of the Group's reportable segments has thus changed.

In prior years the primary segment information was presented based on the types of product platforms, i.e. "PC and Console" and "Mobile" segments. However, information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of performance is based on the different types of MMO (massively multiplayer online) games. The mobile segment was disposed of in Q3 2008. The reportable operating segments of the group are defined as;

- full-fledged MMOs - like Age of Conan and The Secret World
- free-to-play MMO games – which includes the games under the Company's free-to-play game initiative

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of IFRS 8.

Segment information

| | Revenue from external customers | | Segment profit *) | |
|--|---------------------------------|---------------|-------------------|---------------|
| | Period ended | | Period ended | |
| | 31 March 2009 | 31 March 2008 | 31 March 2009 | 31 March 2008 |
| Full-fledged MMO's | 7 636 | 943 | 4 470 | -856 |
| Free-to-play MMO games | | | | |
| Unallocated | 89 | 20 | 89 | 20 |
| Total | 7 725 | 963 | 4 559 | -836 |
| General and administrative expenses | | | -1 661 | -1 716 |
| Depreciation, amortization and impairment charges | | | -1 459 | -400 |
| Net financial items | | | 145 | 2 917 |
| Profit (loss) before tax (from continuing operations) | | | 1 584 | -36 |

*) Segment profit is measured as revenue earned less personnel costs and other operating costs. General and administrative costs, depreciation, amortisation, impairment charges, financial items and income tax are not allocated to the segments.

| | Full-fledged MMO's | Free-to-play MMO games |
|---------------------------------------|-----------------------|---------------------------|
| Segment assets as at 31 March 2009 | 28 623 | 1 089 |
| Segment assets as at 31 December 2008 | 25 733 | 685 |
| Segment assets as at 31 March 2008 | 39 623 | 0 |

Segment assets only include the book value of the games. No other assets are allocated to the segments.