



**Q2-2009**

## Summary

- Revenues for the second quarter of 2009 (Q209) were 6,145 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was 748 TUSD.
- The Company's financial position remains strong, with 37,117 TUSD in cash as of 30 June, 2009.
- The stabilization in customer levels seen in Q1 was re-enforced in Q2. Re-evaluation programs and increased sales and marketing activities during July resulted in an increase in customer inflows.
- The Company has, based on results from the summer campaigns, decided to continue investments in development and sales and marketing of *Age of Conan* with the goal of attaining growth in the customer levels of *Age of Conan*.
- The reveal of the first Expansion Pack for *Age of Conan*, called *Rise of the Godslayer* was well received by press and players at the Games Convention (GC).
- *The Secret World* progressed well during Q2 and several key features are currently operational in the game.
- The Company was awarded around 240 TUSD in funding from the Norwegian Film Fund for the development of its Java based free-to-play MMO. This game reached its game-play beta stage in August.

## Financials Q2 2009

- Revenues for Q209 were 6,145 TUSD, down from 12,231 TUSD for the second quarter of 2008 (Q208). The game *Age of Conan* was launched in Q208.
- EBITDA was 748 TUSD compared to -1,882 TUSD in Q208.
- Operating profit (EBIT) was -728 TUSD in Q209 compared to -5,689 TUSD in Q208. Revenues and EBIT was positively impacted by a revaluation of expected returns on box sales.
- Profit for the period was -236 TUSD compared to -7,191 TUSD in Q208.
- The Company's financial position remains strong, with 37,117 TUSD in cash as of June 30, 2009 and an equity ratio of 81 %.

## *Age of Conan* highlights

- The Company increased its sales and marketing activities during July and ran a re-evaluation campaign for *Age of Conan*. These activities led to an increase in customer levels.
- The Company will maintain its higher level of sales and marketing activities for *Age of Conan* with the goal of attaining growth over time in the customer levels of *Age of Conan*.
- In June, the Company released an important update to the item and role-play system of *Age of Conan*

which is expected to contribute to increased customer longevity in the game. The reception from players and press has been positive.

- At GC, in August, the first Expansion Pack for *Age of Conan* was revealed. The Expansion will take place in an Asian cultural setting. Several playfields of the Expansion are currently playable and the Company has a large development team working on the product. The release date for the Expansion Pack has not yet been set.
- The Company continues to invest in *Age of Conan* with the goal of both increasing the average subscription period and optimizing the digital distribution of the game. Several significant updates to the game will be released during the fall.
- In Q2 Funcom received the remaining amount of the minimum guaranteed royalty from Neowiz, a leading Korean publisher that has obtained the right to sell and operate *Age of Conan* for a five-year period in Korea. The payments are treated as deferred income but the withholding taxes related to the payments have been charged to the P&L as income taxes. Neowiz has not yet communicated a launch date for the game in Korea.

## *The Secret World* highlights

- *The Secret World*, Funcom's next full-fledged MMO is progressing according to plan. The game's team size is currently around 100 people.
- The development team reached several significant milestones during Q2 including first in-game versions of character creation, combat and adventuring.
- The DreamWorld Engine, powering *The Secret World*, also received several significant updates during Q2, with improved content production tools and new graphics features being two key focus areas.
- The activity levels within the community of the game grew significantly in Q2 primarily due to the successful public relations activities initiated in April, which has led to an increased level of attention for the game.
- The Company plans several new PR activities for the fall to further stimulate interest in *The Secret World* and to increase the community size of the game.

## Other Company highlights

- In Q2 the Company was awarded around 240 TUSD in development support for its Java based free-to-play MMO from the Norwegian Film Fund. This project reached an important game play beta stage during the summer. The second free-to-play MMO is still in game-play prototyping stage.
- The Company has, during the last two quarters, been conducting a proportionally larger share of its

development in lower cost countries, most significantly in China. This cost initiative will be continued and expanded in the coming years and the Company expects a significant decrease in average cost per developer.

- The number of employees, excluding customer service personnel, is up from 296 at the start of Q209 to 309 as of 30 June, 2009.

#### Market update

- The high growth rate of the online PC games market continues. Particularly the smaller, free-to-play games market grows very fast.
- iPhone has established itself as the first significant connected mobile games platform and this platform has experienced high growth in games sales.
- The number of large scale new MMOs is predicted to remain low, but two relatively large games will be launched during Q3 and these games may increase the competitive pressure on *Age of Conan*.

#### Transactions with related parties

There have been no significant transactions with related parties in 2009.

#### Risk factors

For information regarding risk factors for the Company and its games, please refer to note 27 in the 2008 annual report.

#### Outlook

- The Company's revenues in Q309 are expected to be between 5,000 and 6,000 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 continues to consider the financial resources to be sufficient to complete and launch the MMOs in development.

*Zürich, 25 August, 2009*

*The Management Board of Funcom N.V.*

*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](http://www.funcom.com)*
- *For more information about the Age of Conan game, please see [www.ageofconan.com](http://www.ageofconan.com)*

FUNCOM N.V. - HALF YEAR FINANCIALS OF 2009  
PRELIMINARY, NOT AUDITED, FIGURES

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	Second quarter		Accumulated		Full Year
	2009	2008	2009	2008	2008
<i>(Figures in TUSD)</i>					
Revenue	6 145	12 231	13 870	13 194	39 925
Operating expenses	-5 397	-14 113	-10 224	-17 629	-37 197
<b>Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)</b>	<b>748</b>	<b>-1 882</b>	<b>3 647</b>	<b>-4 435</b>	<b>2 728</b>
Depreciation, amortization and impairment charges	-1 477	-3 807	-2 936	-4 207	-29 436
Total operating expenses	-6 874	-17 920	-13 160	-21 836	-66 632
<b>Operating result ("EBIT") from continuing operations</b>	<b>-728</b>	<b>-5 689</b>	<b>711</b>	<b>-8 642</b>	<b>-26 707</b>
Net financial items	661	716	806	3 634	-3 260
Profit (loss) before income taxes from continuing operations	-67	-4 973	1 517	-5 009	-29 967
Income taxes	-169	-2 060	-286	-1 022	-4 152
<b>Profit (loss) from continuing operations</b>	<b>-236</b>	<b>-7 033</b>	<b>1 231</b>	<b>-6 031</b>	<b>-34 119</b>
Profit from discontinued operation, net of tax	0	-158	0	-241	264
<b>Profit (loss) for the period</b>	<b>-236</b>	<b>-7 191</b>	<b>1 231</b>	<b>-6 271</b>	<b>-33 855</b>
Attributable to non-controlling interests	0	-25	0	-57	-57
Attributable to shareholders of Funcom N.V.	-236	-7 166	1 231	-6 214	-33 798
Earnings per share basic (USD)	0,00	-0,13	0,02	-0,11	-0,64
Earnings per share fully diluted (USD)	0,00	-0,12	0,02	-0,10	-0,64

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Profit (loss) for the period	-236	-7 191	1 231	-6 271	-33 855
Foreign exchange translation difference	845	182	1 864	423	-926
<b>Total comprehensive income for the period</b>	<b>609</b>	<b>-7 009</b>	<b>3 096</b>	<b>-5 848</b>	<b>-34 781</b>
Attributable to non-controlling interests	0	-25	0	-66	-57
Attributable to shareholders of Funcom N.V.	609	-6 984	3 096	-5 782	-34 724

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	30 June		31 Dec.	
	2009	2008	2008	2008
<i>(Figures in TUSD)</i>				
<b>ASSETS</b>				
<u>Non-current assets</u>				
Deferred tax asset		300	3 982	300
Intangible assets		32 667	44 772	27 123
Tangible fixed assets		1 530	5 758	2 222
Long term receivables		459	498	372
<u>Current assets</u>				
Trade receivables		2 044	18 204	3 028
Prepayments and other receivables		1 695	1 969	1 404
Cash and cash equivalents		37 117	36 392	39 396
<b>Total assets</b>		<b>75 812</b>	<b>111 575</b>	<b>73 845</b>
<b>EQUITY AND LIABILITIES</b>				
<u>Equity</u>				
Paid in capital		125 557	124 904	125 246
Reserves		275	1 114	-131
Retained earnings		-64 072	-39 194	-66 761
Non-controlling interests		0	11	0
<u>Liabilities</u>				
Deferred tax liabilities		50	0	50
Long-term liabilities			2 915	1 037
Short-term liabilities		14 002	21 825	14 404
<b>Total equity and liabilities</b>		<b>75 812</b>	<b>111 575</b>	<b>73 845</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Second quarter		Period ended 30 June		Full Year
	2009	2008	2009	2008	2008
<i>(Figures in TUSD)</i>					
Cash flow from operating activities	120	-5 596	4 585	-6 044	9 553
Cash flow from investing activities	-3 672	-11 577	-7 725	-17 659	-14 357
Cash flow from financing activities	-620	5 866	-1 387	5 599	-3 640
Change in cash and cash equivalents	-4 172	-11 307	-4 528	-18 104	-8 444
Cash and cash equivalents, beginning of period	39 636	46 991	39 396	52 366	52 366
Effect of exchange rate fluctuations on cash held	1 652	708	2 249	2 130	-4 526
Cash and cash equivalents, end of period	37 117	36 392	37 117	36 392	39 396

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	30 June		Full Year	
	2009	2008	2008	2008
<i>(Figures in TUSD)</i>				
Opening balance		58 353	92 147	92 147
Total comprehensive income for the period		3 096	-5 782	-34 724
Equity issues		0	0	40
Changes in non-controlling interests		0	-51	-62
Other		311	521	952
Closing balance		61 760	86 835	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 six months ended 30 June, 2009 were approved for issue by the Supervisory Board on 25 August, 2009.

### 2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the six months ended 30 June, 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 1 January, 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 revenue mainly consists of sales of subscriptions and royalties from box sales. In Q208 the game Age of Conan was launched.

### 4 Operating expenses

Personnel cost, operating cost for the Age of Conan game servers and office rent are main elements of the operating expenses.

## 5 Depreciation, amortization and impairment charges

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

The decrease in depreciation, amortization and impairment charges this quarter compared to 2008 is mainly due to the impairment charges of *Age of Conan* last year. Impairment charges of 20 900 TUSD was made in Q4 2008 mainly to reflect a lower level of revenues than anticipated at the time of capitalization for *Age of Conan*.

## 6 Net financial items

Net financial items mainly consist of interest and exchange rate differences.

## 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 Francs.

## 9 Cash flows

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.

The cash flow from operating activities is affected by payment of royalty from box revenues received in Q2 2009 and payment received from Filmfondet. Cash flows from discontinued operation included in the cash flow statement are considered insignificant.

## 10 Average numbers of shares

	Second quarter		Half year		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. 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.

	Revenue from external customers		Segment profit *)	
	Period ended		Period ended	
	30 June 2009	30 June 2008	30 June 2009	30 June 2008
Full-fledged MMO's	13 781	13 174	7 601	1 397
Free-to-play MMO games				
Unallocated	89	20	89	20
<b>Total</b>	<b>13 870</b>	<b>13 194</b>	<b>7 690</b>	<b>1 417</b>
General and administrative expenses			-4 043	-5 852
Depreciation, amortization and impairment charges			-2 936	-4 207
Net financial items			806	3 634
<b>Profit (loss) before tax (from continuing operations)</b>			<b>1 517</b>	<b>-5 009</b>

\*) Segment profit is measured as revenue earned less personnel costs and other operating costs. General and administrative costs, depreciation, amortization, 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 30 June 2009	30 401	1 756
Segment assets as at 31 December 2008	25 733	685
Segment assets as at 30 June 2008	42 649	0

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

## Directors' responsibility statement

The members of the Management Board, as required by section 5:25d, paragraph 2, under c of the Dutch Financial Supervision Act (Wet op het financieel toezicht), confirm that to the best of their knowledge:

The Consolidated Interim Financial Statements for the six months ended 30 June, 2009 give a true and fair view of the assets, liabilities, financial position and profit or loss of Funcom N.V. and its consolidated companies, and

The Interim Directors' Report gives a true and fair view of:

- the position of Funcom N.V. and its consolidated companies as at 30 June, 2009,
- the development and performance of the business during the first six months of the financial year of Funcom N.V. and its consolidated companies, and
- the expected development and performance of the business, provided that the interests of Funcom N.V. and its consolidated companies are not harmed by disclosure, with particular attention for the investments, and the circumstances of which the development of revenues and profitability are dependent.

Zürich, 25 August, 2009

The Management Board of Funcom N.V.

Pieter van Tol (member of the board)

Trond A. Aas (member of the board and CEO)