



Q3-2009

Summary

- Revenues for the third quarter of 2009 (Q309) were 5,690 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was 380 TUSD.
- The Company's financial position remains strong, with 34,818 TUSD in cash as of 30 September, 2009
- An accounting charge for impairment of the game *Age of Conan* has impacted EBIT negatively with 9,300 TUSD. The accounting charge – which has no cash effect - has been made to balance the book value of the game in the statement of financial position and estimates of future revenues and costs.
- In September the Company opened a development studio in Montreal, Quebec, Canada, giving Funcom access both to the large talent pool in Quebec and the strong governmental incentives that apply to the games industry.
- In Q3 the Company implemented initiatives for reducing the cost levels of the company with an effect of around USD 400.000 per month.
- The Company received very positive feedback for *Rise of the Godslayer*, the first expansion of *Age of Conan*, at the reveal of the expansion at the Games Convention in August.
- At Penny Arcade Expo the Company conducted its second major PR event for *The Secret World* with a significantly positive impact on PR and community for the game.
- *Pets vs Monsters*, the Company's first free-to-play game concept is approaching the limited beta phase in accordance with plan, with a targeted limited beta launch in December 2009.

Financials Q3 2009

- Revenues for Q309 were 5,690 TUSD, down from 18,065 TUSD for the third quarter of 2008 (Q308).
- EBITDA was 380 TUSD compared to 7,761 TUSD for Q308.
- Operating profit (EBIT) was -10,526 TUSD in Q309 compared to 5,332 TUSD in Q308. An accounting charge for impairment of the game *Age of Conan* has impacted EBIT negatively with 9,300 TUSD. The accounting charge – which has no cash effect - has been made to balance the book value of the game in the statement of financial position and estimated future revenues and cost. Revenues and EBIT was positively impacted by a revaluation of expected returns on box sales.
- Profit for the period was -9,631 TUSD compared to 3,269 TUSD for Q308.
- The Company's financial position remains strong, with 34,818 TUSD in cash as of September 30, 2009 and an equity ratio of 82 %.
- Operating costs were negatively affected by the development in USD exchange rate.

Age of Conan highlights

- The Company ran a successful re-evaluation campaign during July, increasing the number of subscribers to the game. However, the launch of two major competing MMO-games during Q3 led to a subsequent reduction in subscriber levels.
- At Games Convention, in August, the first Expansion Pack for *Age of Conan* was revealed. The Expansion – scheduled to be launched during H1 2010 - will take place in an Asian setting. Several playfields of the Expansion are currently playable and the Company has a large development team working on the product.
- Neowiz, Funcom's Korean partner, is progressing well towards the launch of *Age of Conan* in Korea. The game will enter a limited beta phase during November. Neowiz has not communicated a final launch date for the game.

The Secret World highlights

- The *Secret World*, Funcom's next high-end MMO is progressing well. The focus of the game development is on iterating over combat and core game play mechanics as well as implementing content.
- Community build up and anticipation for *The Secret World* is developing well. The Company arranged a major press event at Penny Arcade Expo in Seattle and received world wide coverage and very positive feedback on the game. The Company also released a second CG video for the game.
- So far over 200.000 gamers have signed up for the community of *The Secret World* and chosen a faction to be aligned with - The Templars, The Illuminati or The Dragon.
- The Company estimates that between 3 and 4 million gamers have read about the game and watched the marketing videos of the game so far. In the opinion of the Company, the expectations for *The Secret World* among gamers are higher than for *Age of Conan* at the same stage of development.

Other Company highlights

- In October, the Norwegian Film Fund awarded Funcom 270 TUSD in development support for prototyping and development of an Xtreme sports MMO.
- *Pets vs Monsters*, the Company's first free-to-play MMO is moving into limited Beta in December to start testing its game play attractiveness on larger number of potential customers.
- The number of employees including the effect of forced leaves but excluding customer service personnel is currently at 275.

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

- In Q3, the Company implemented cost reduction initiatives involving head count reductions, forced leaves and other cost reductions that will reduce monthly operating costs of around 400 TUSD with effect from December 2009.
- From June 2010 the company expects monthly cash outflows relating to hosting, bandwidth and lease of servers to be reduced by 350-400 TUSD.
- As announced previously, the Company will reduce its cost of development by transferring a proportionally larger share of its development to lower cost countries. The Company currently has 25 employees in its Montreal office, where the government offers strong financial incentives to the game industry. The Company also has over 50 employees in Beijing, China.
- The Company's revenues in Q409 are expected to be in the range of 4,000 - 5,000 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.

Zürich, 16 November 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*
- *For more information about the Age of Conan game, please see www.ageofconan.com*
- *For more information about The Secret World game, please see www.darkdaysarecoming.com*
- *For more information about the Anarchy Online game, please see www.anarchy-online.com*

FUNCOM N.V. - THIRD QUARTER FINANCIALS OF 2009
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Third quarter		Accumulated		Full Year
	2009	2008	2009	2008	2008
<i>(Figures in TUSD)</i>					
Revenue	5 690	18 065	19 560	31 260	39 925
Operating expenses	-5 309	-10 304	-15 533	-27 933	-37 197
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	380	7 761	4 027	3 327	2 728
Depreciation, amortization and impairment charges	-10 906	-2 429	-13 842	-6 635	-29 436
Total operating expenses	-16 216	-12 733	-29 376	-34 568	-66 632
Operating result ("EBIT") from continuing operations	-10 526	5 332	-9 816	-3 308	-26 707
Net financial items	939	-3 175	1 746	459	-3 260
Profit (loss) before income taxes from continuing operations	-9 587	2 158	-8 070	-2 849	-29 967
Income taxes	-44	605	-330	-417	-4 152
Profit (loss) from continuing operations	-9 631	2 763	-8 400	-3 266	-34 119
Profit from discontinued operation, net of tax	0	506	0	264	264
Profit (loss) for the period	-9 631	3 269	-8 400	-3 002	-33 855
Attributable to non-controlling interests	0	0	0	-57	-57
Attributable to shareholders of Funcom N.V.	-9 631	3 269	-8 400	-2 944	-33 798
Earnings per share basic (USD)	-0,18	0,06	-0,16	-0,07	-0,64
Earnings per share fully diluted (USD)	-0,18	0,06	-0,16	-0,07	-0,64

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-9 631	3 269	-8 400	-3 002	-33 855
Foreign exchange translation difference	1 650	-276	3 514	-35	-926
Total comprehensive income for the period	-7 982	2 993	-4 886	-3 038	-34 781
Attributable to non-controlling interests	0	-16	0	-57	-57
Attributable to shareholders of Funcom N.V.	-7 982	3 009	-4 886	-2 981	-34 724

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Sep.		31 Dec.	
	2009	2008	2008	2008
<i>(Figures in TUSD)</i>				
ASSETS				
<u>Non-current assets</u>				
Deferred tax asset			300	4 129
Intangible assets			26 744	43 646
Tangible fixed assets			1 416	5 042
Long term receivables			505	445
<u>Current assets</u>				
Trade receivables			1 230	13 853
Prepayments and other receivables			1 091	2 556
Cash and cash equivalents			34 818	34 779
Total assets			66 105	104 450
EQUITY AND LIABILITIES				
<u>Equity</u>				
Paid in capital			125 733	124 978
Reserves			-17	655
Retained earnings			-71 761	-35 925
Non-controlling interests			0	0
<u>Liabilities</u>				
Deferred tax liabilities			50	0
Long-term liabilities				2 776
Short-term liabilities			12 100	11 966
Total equity and liabilities			66 105	104 450

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Third quarter		Period ended 30 Sep.		Full Year
	2009	2008	2009	2008	2008
<i>(Figures in TUSD)</i>					
Cash flow from operating activities	1 111	830	5 696	-5 214	9 553
Cash flow from investing activities	-4 738	6 989	-12 463	-10 670	-14 357
Cash flow from financing activities	-375	-7 160	-1 762	-1 561	-3 640
Change in cash and cash equivalents	-4 003	660	-8 530	-17 444	-8 444
Cash and cash equivalents, beginning of period	37 117	36 392	39 396	52 366	52 366
Effect of exchange rate fluctuations on cash held	1 704	-2 272	3 952	-143	-4 526
Cash and cash equivalents, end of period	34 818	34 779	34 818	34 779	39 396

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	30 Sep.		Full Year	
	2009	2008	2008	2008
<i>(Figures in TUSD)</i>				
Opening balance	58 353	92 147	92 147	92 147
Total comprehensive income for the period	-4 886	-2 981	-3 002	-34 724
Equity issues	0	0	0	40
Changes in non-controlling interests	0	-62	-62	-62
Other	487	604	604	952
Closing balance	53 955	89 708	89 708	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 nine months ended 30 September, 2009 were approved for issue by the Supervisory Board on 16 November, 2009.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the nine months ended 30 September, 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 revenues

The revenues mainly consist of sales of subscriptions and royalties from box sales. Q308 was the first full quarter after launch of Age of Conan.

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 investments over the period of the estimated future economic benefit.

An impairment charge of 9,300 TUSD on the game *Age of Conan* has been made in Q309 to balance the book value of the game in the statement of financial position and estimated future flows of revenues and cost. This will affect future amortizations.

6 Net financial items

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

7 Profit from discontinued operations

Profit from discontinued operations relates to the sale of Plutolife in Q308, 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.

Cash flows from discontinued operation included in the cash flow statement are considered insignificant.

10 Average numbers of shares

	Third quarter		Nine months		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.sep.09	30.sep.08	30.sep.09	30.sep.08
Full-fledged MMO's	19 471	31 240	11 018	9 771
Free-to-play MMO games				
Unallocated	89	20	89	20
Total	19 560	31 260	11 107	9 791
General and administrative expenses			-7 081	-6 464
Depreciation, amortization and impairment charges			-13 842	-6 635
Net financial items			1 746	459
Profit (loss) before tax (from continuing operations)			-8 070	-2 849

*) 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 September 2009	24 409	1 937
Segment assets as at 31 December 2008	25 733	685
Segment assets as at 30 September 2008	43 133	0

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