



Q4-2009

SUMMARY

- Revenues for the fourth quarter of 2009 (Q409) were 4,316 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was 98 TUSD.
- The Company has a cash position of 30,948 TUSD as of 31 December, 2009.
- The Company announced the recruitment of Miguel Caron, as CEO for its Canadian Company Funcom Games Canada INC in January. Miguel Caron will be responsible for further extending and developing the Company's operations and business initiatives in North America.
- The Company launched the first of several planned beta-tests for its first free-to-play MMO, *Pets vs Monsters* during December.
- Neowiz, the Korean partner for *Age of Conan*, conducted its first closed beta tests for *Age of Conan* during Q4.
- The first Expansion Pack for *Age of Conan*, *Rise of the Godslayer*, entered its beta-testing phase during Q4. The release of the expansion pack is scheduled to H1 2010.
- The Company has conducted extensive PR activities for both *The Secret World* and *Rise of the Godslayer* during Q1 2010, leading up to larger game reveals planned for March 2010.

FINANCIALS Q4 2009

- Revenues for Q409 were 4,316 TUSD, down from 8,665 TUSD for the fourth quarter of 2008 (Q408).
- EBITDA was 98 TUSD compared to -595 TUSD for Q408.
- Operating profit (EBIT) was -982 TUSD in Q409 compared to -23,395 TUSD in Q408.
- Profit for the period was -86 TUSD compared to -30,854 TUSD for Q408.
- The Company's financial position remains strong, with 30,948 TUSD in cash as of 31 December, 2009 and an equity ratio of 82 %.

HIGH END MMOs

Age of Conan highlights

- During late Q3 and early Q4, *Age of Conan* saw a decline in subscriber levels due to competitive pressures from releases of new MMO-games. Effective marketing campaigns during December, led to stabilization and some growth in subscriber levels, and for the last two and a half months the subscriber levels have been stable, but at a lower level than during H1 of 2009.

- The Company has conducted closed beta tests for the *Rise of the Godslayer* during Q4.
- The Company ramped up PR-activities for the upcoming Expansion Pack during Q4 2009 and Q1 2010. This has led to attention increase for the game on core gamer sites like MMORPG.com and others.
- The Company released an upgrade to *Age of Conan* during Q1, Update 6, with extensions in content for the game as well as new Guild-systems tailored to increase socializing and interaction in the game.
- Neowiz, Funcom's Korean partner, conducted its first closed beta tests of the Korean version of the game.

The Secret World highlights

- *The Secret World*, Funcom's next high-end MMO, is progressing towards a major milestone in March, in which several hours of game-play will have been implemented.
- PR activities for *The Secret World* increased during Q4 2009 and Q1 2010. In December there was a major faction reveal on Gamespot with significant coverage and attention. During Q1, secretive in-game-footage was released and a new game-related PR-site was announced. These activities lead up to a major PR-reveal during March.
- Close to 300.000 gamers have signed up for the community of *The Secret World* and aligned themselves with one of the game's three factions.

Technology

- The *Dreamworld Technology*, which powers both *Age of Conan* and *The Secret World*, received significant upgrades during Q4, with a particular focus on new content production tools and on restructuring the graphics engine.

FREE-TO-PLAY MMOs

- *Pets vs Monsters*, the Company's first free-to-play MMO, moved into the limited open beta phase in Q4. 2500 players were introduced to the game and the Company received valuable data on technical performance and game play appeal during the tests. The next limited beta will be conducted in a Norwegian translation of the game during March/April, to gather further game play data from the target demographic.
- The Company continued its work on several early stage free-to-play MMOs, prototyping and testing several game concepts.

OTHER HIGHLIGHTS

Transactions with related parties

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

Additional disclosures - **impairment charges**

After reviewing the 2008 annual report, Funcom has become aware that certain disclosures to the financial statements should have been made more distinct. This relates to the breakdown of the impairment charge to intangible assets of 19,000 TUSD and a description of the circumstances that led to the impairment charges. Age of Conan has been impaired both in 2008 and 2009 due to a negative development in the customer base and revised estimates for future cash flows resulting from this. We consider the main reasons for this development to be a lack of long-term affinity for the game combined with the market situation. This impacted the estimates for The Secret World in 2008. Please review note 3 for further details.

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 October, the Company implemented a cost reduction plan involving amongst others forced leaves and other cost reductions that reduced monthly operating costs of around 350-400 TUSD with effect from December 2009.

- From June 2010, the monthly costs of the Company is expected to be reduced by around 400 TUSD as server leasing and hosting contracts related to *Age of Conan* and *Anarchy Online* come up for renegotiation.
- The Company's revenues in Q110 are expected to be somewhat lower than in Q409. 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, 18 February, 2010

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. - FOURTH QUARTER FINANCIALS OF 2009
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Fourth quarter		Accumulated	
	2009	2008	2009	2008
<i>(Figures in TUSD)</i>				
Revenue	4 316	8 665	23 876	39 925
Operating expenses	-4 218	-9 260	-19 751	-37 197
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	98	-595	4 125	2 728
Depreciation, amortization and impairment charges	-1 080	-22 801	-14 923	-29 436
Total operating expenses	-5 298	-32 060	-34 674	-66 632
Operating result ("EBIT") from continuing operations	-982	-23 395	-10 798	-26 707
Net financial items	972	-3 693	2 718	-3 260
Profit (loss) before income taxes from continuing operations	-10	-27 088	-8 080	-29 967
Income taxes	-76	-3 765	-406	-4 152
Profit (loss) from continuing operations	-86	-30 854	-8 486	-34 119
Profit from discontinued operation, net of tax	0		0	264
Profit (loss) for the period	-86	-30 854	-8 486	-33 855
Attributable to non-controlling interests	0	0	0	-57
Attributable to shareholders of Funcom N.V.	-86	-30 854	-8 486	-33 798
Earnings per share basic (USD)	0,00	-0,58	-0,16	-0,64
Earnings per share fully diluted (USD)	0,00	-0,58	-0,16	-0,64

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-86	-30 854	-8 486	-33 855
Foreign exchange translation difference	-814	-961	2 700	-926
Other	60	0	60	0
Total comprehensive income for the period	-840	-31 815	-5 726	-34 781
Attributable to non-controlling interests	0	-16	0	-57
Attributable to shareholders of Funcom N.V.	-840	-31 799	-5 726	-34 724

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Dec.	
	2009	2008
<i>(Figures in TUSD)</i>		
ASSETS		
<u>Non-current assets</u>		
Deferred tax asset	300	300
Intangible assets	30 848	27 123
Tangible fixed assets	886	2 222
Long term receivables	508	372
<u>Current assets</u>		
Trade receivables	1 239	3 028
Prepayments and other receivables	638	1 404
Cash and cash equivalents	30 948	39 396
Total assets	65 368	73 845
EQUITY AND LIABILITIES		
<u>Equity</u>		
Paid in capital	126 049	125 246
Reserves	-103	-131
Retained earnings	-72 576	-66 761
<u>Liabilities</u>		
Deferred tax liabilities	50	50
Long-term liabilities		1 037
Short-term liabilities	11 948	14 404
Total equity and liabilities	65 368	73 845

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Fourth quarter		Period ended 31 Dec.	
	2009	2008	2009	2008
<i>(Figures in TUSD)</i>				
Cash flow from operating activities	2 153	14 767	7 849	9 553
Cash flow from investing activities	-4 627	-3 687	-17 090	-14 357
Cash flow from financing activities	-425	-2 079	-2 187	-3 640
Change in cash and cash equivalents	-2 898	9 001	-11 427	-8 444
Cash and cash equivalents, beginning of period	34 818	34 779	39 396	52 366
Effect of exchange rate fluctuations on cash held	-972	-4 384	2 979	-4 526
Cash and cash equivalents, end of period	30 948	39 396	30 948	39 396

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	31 Dec.	
	2009	2008
<i>(Figures in TUSD)</i>		
Opening balance	58 353	92 147
Total comprehensive income for the period	-5 726	-34 724
Equity issues	0	40
Changes in non-controlling interests	0	-62
Other	743	952
Closing balance	53 370	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 twelve months ended 31 December, 2009 were approved for issue by the Supervisory Board on 18 February, 2010.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the twelve months ended 31 December, 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 12.

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 Additional disclosures regarding impairment charges

After reviewing the 2008 annual report Funcom has become aware that certain disclosures to the financial statements should have been made more distinct. This relates to the breakdown of the impairment charge to intangible assets of 19,000 TUSD and a description of the circumstances that led to the impairment charges. *Age of Conan* has been impaired both in 2008 and 2009 due to a negative development in the customer base and revised estimates for future cash flows resulting from this. We consider the main reasons for this development to be a lack of long-term affinity for the game combined with the market situation. This impacted the estimates for *The Secret World* in 2008. In order to further differentiate the product from the

main competitors it was considered necessary to make changes to the game concept. Due to this change, elements of the game under development were discarded and additional development costs incurred. As a result an impairment charge was recognized.

Total impairment charges made to the cash generating unit (CGU) *Age of Conan* for the year 2009 (2008) are as follows: 9,300 TUSD (2008: 12,286 TUSD to development cost and in addition 1,962 TUSD charged to the Dreamworld Technology).

Total impairment charges made to the cash generating unit (CGU) *The Secret World* for the year 2009 (2008) are as follows: 0 TUSD (2008: 2,660 TUSD to development cost and in addition 1,962 TUSD charged to the Dreamworld Technology).

4 Operating revenues

The revenues mainly consist of sales of subscriptions and royalties from box sales.

5 Operating expenses

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

6 Depreciation, amortization and impairment charges

The Company amortizes investment in the development of technology and game assets over their estimated useful life, i.e. the period over which future economic benefits are expected to be generated.

An impairment charge of 9,300 TUSD on the game *Age of Conan* was made in Q309 to reduce the book value of the game in the statement of financial position to its recoverable amount. The recoverable amount is calculated based on value in use, i.e. the present value of expected future cash flows expected to be derived from the asset. The impairment charge will affect future amortizations.

Age of Conan has been impaired due to a negative development in the customer base and revised estimates for future cash flows resulting from this. We consider the main reasons for this development to be a lack of long-term affinity for the game combined with the market situation.

7 Net financial items

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

8 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.

9 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 primarily denominated in Swiss Francs.

10 Cash flows

A significant part of Funcom's cash and cash equivalents are denominated in Norwegian kroner and Canadian dollar. The Company's NOK and CAD cash holdings are a natural hedge against the expectedly large proportion of future operating expenses arising in NOK and CAD.

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

11 Average numbers of shares

	Fourth quarter		Twelve months		Full year
	2009	2008	2009	2008	2008
Average number of shares (1000)	52 832	52 832	52 832	52 785	52 785

12 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	
	31. Dec. 09	31. Dec. 08	31. Dec. 09	31. Dec. 08
Full-fledged MMO's	23 787	39 905	12 952	15 786
Free-to-play MMO games				
Unallocated	89	20	89	20
Total	23 876	39 925	13 040	15 806
General and administrative expenses			-8 916	-13 076
Depreciation, amortization and impairment charges			-14 923	-29 436
Net financial items			2 718	-3 260
Profit (loss) before tax (from continuing operations)			-8 080	-29 967

*) 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 31 December 2009	28 112	2 219
Segment assets as at 31 December 2008	25 733	685

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