



Q1-2010

SUMMARY

- Revenues for the first quarter of 2010 (Q110) were 3,835 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was -737 TUSD.
- The Company has a cash position of 25,264 TUSD as of 31 March, 2010.
- The first Expansion Pack for *Age of Conan, Rise of the Godslayer*, was launched on May 11. The player activity and sales of the game have developed positively as a result of the launch.
- *Age of Conan* was launched (open beta) in Korea on May 20 by Neowiz, the Company's Korean partner. Commercialization of the game will commence in the near future.
- The Company revealed the first in-game game-play footage from its next large scale MMO, *The Secret World*, at press events in the US during March. The game received broad coverage in the global gaming press following the events.
- The Company conducted its second beta test for *Pets vs Monsters*, Funcom's first free-to-play MMO, during March/April.

FINANCIALS Q1 2010

- Revenues for Q110 were 3,835 TUSD, down from 4,316 TUSD for the fourth quarter of 2009 (Q409).
- EBITDA was -737 TUSD compared to 98 TUSD for Q409.
- Operating profit (EBIT) was -1,673 TUSD in Q110 compared to -982 TUSD in Q409.
- Profit for the period was -1,507 TUSD compared to -86 TUSD for Q409.
- The Company's financial position remains strong, with 25,264 TUSD in cash as of 31 March 2010 and an equity ratio of 83 %.

LARGE SCALE MMOs

Age of Conan highlights

- *Rise of the Godslayer* was released as planned on May 11, 2010. From a few weeks before launch, the Company has seen positive trends in both player activity and client downloads of the game. Those trends have been reinforced after the launch. The expansion pack is still in its launch phase and it is premature to conclude whether the change will have lasting long-term effects.
- *Rise of the Godslayer* has, in the opinion of the Company, received broad, mainly positive coverage in the global PC gamer press. This is partly a result of the significant PR initiatives related to the expansion pack during Q1 and Q2.
- New retail SKUs, combining the main game and the expansion pack, have been published in Europe

and North America by the Company's new partners, Koch Media and CompuExpert.

- In the opinion of the Company, the players of *Age of Conan* have reacted positively to the content and quality of the *Rise of the Godslayer* expansion pack.
- Neowiz, Funcom's Korean partner, launched the Korean version of the game on May 20 (Open Beta). Commercialization will commence some time after this open beta launch, as is customary in the Korean market.

The Secret World highlights

- The development of *The Secret World*, Funcom's next large scale MMO, progressed well during Q1 and reached a key milestone, with focus on combat, control character customization and missions.
- At PR events in the US during March, in-game footage from *The Secret World* was shown to the world press for the first time. The PR events led to broad, global press coverage for the game. In the opinion of the Company, the coverage and reception from gamers and press was positive and reinforced the appeal and strength of the setting and direction of the game.
- The Company is currently, and according to plan, expanding the team size of *The Secret World* to increase the implementation speed of the project.

FREE-TO-PLAY MMOs

- The Company conducted its second beta for its first free-to-play MMO, *Pets vs Monsters*, during March and April. User data from the beta tests are promising with respect to accessibility and appeal of game play. The next beta tests will be conducted towards the end of Q2 to start testing long-term game affinity.
- The Company has continued its work on several early stage free-to-play MMOs, prototyping and testing several game concepts, including games tailored for Facebook.
- The company has signed a publishing agreement with Stunlock Studios AB, a start-up company based in Skövde, Sweden. Funcom has also provided some funding to the company, and acquired a minority equity stake in the company as consequence. Funcom will publish, operate and provide customer support for the multi-player arena game *Bloodline Champions*. The game is currently in the later stages of beta testing.

OTHER HIGHLIGHTS

- The Company was awarded financial support of around 1,000 TUSD, from Verdikt, a Norwegian research and development program for further

development of the Company's Dreamworld game technology. The funds will be received during the next 2 years.

Transactions with related parties

There have been no significant transactions with related parties during Q1 2010.

Risk factors

For information regarding risk factors for the Company and its games, please refer to note 29 in the 2009 annual report.

Outlook

- During Q2 2010, the monthly cash expenditures of the Company related to server leasing and hosting contracts for *Age of Conan* and *Anarchy Online* is expected to be reduced by around 400 TUSD.
- The Company's revenues in Q210 are expected to be higher than in Q110. The Company is currently in the launch phase of the first expansion pack for *Age of Conan*, and the impact on revenues from this launch is still relatively uncertain.
- 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, 20 May, 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. - FIRST QUARTER FINANCIALS OF 2010
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	First quarter		Accumulated		Full Year
	2010	2009	2010	2009	2009
<i>(Figures in TUSD)</i>					
Revenue	3 835	7 725	3 835	7 725	23 876
Operating expenses	-4 572	-4 826	-4 572	-4 826	-19 751
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-737	2 899	-737	2 899	4 125
Depreciation, amortization and impairment charges	-936	-1 459	-936	-1 459	-14 923
Total operating expenses	-5 507	-6 285	-5 507	-6 285	-34 674
Operating result ("EBIT") from continuing operations	-1 673	1 440	-1 673	1 440	-10 798
Net financial items	196	145	196	145	2 718
Profit (loss) before income taxes from continuing operations	-1 477	1 585	-1 477	1 585	-8 080
Income taxes	-30	-117	-30	-117	-406
Profit (loss) from continuing operations	-1 507	1 468	-1 507	1 468	-8 486
Profit from discontinued operation, net of tax	0	0	0	0	0
Profit (loss) for the period	-1 507	1 468	-1 507	1 468	-8 486
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-1 507	1 468	-1 507	1 468	-8 486
Earnings per share basic (USD)	-0,03	0,03	-0,03	0,03	-0,16
Earnings per share fully diluted (USD)	-0,03	0,03	-0,03	0,03	-0,16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-1 507	1 468	-1 507	1 468	-8 486
Foreign exchange translation difference	-298	1 019	-298	1 019	2 700
Other	0	0	0	0	60
Total comprehensive income for the period	-1 805	2 487	-1 805	2 487	-5 726
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-1 805	2 487	-1 805	2 487	-5 726

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Mar.		31 Dec.
	2010	2009	2009
<i>(Figures in TUSD)</i>			
ASSETS			
<u>Non-current assets</u>			
Deferred tax asset		277	300
Intangible assets	33 993	30 072	30 848
Tangible fixed assets	712	1 879	886
Long term receivables	493	440	508
<u>Current assets</u>			
Trade receivables	714	1 827	1 239
Prepayments and other receivables	850	1 231	638
Cash and cash equivalents	25 264	39 636	30 948
Total assets	62 303	75 385	65 368
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital	2 719	2 719	2 719
Reserves	123 497	122 810	123 227
Retained earnings	-74 483	-64 539	-72 576
<u>Liabilities</u>			
Deferred tax liabilities	27	50	50
Long-term liabilities		270	
Short-term liabilities	10 543	14 075	11 948
Total equity and liabilities	62 303	75 385	65 368

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	First quarter		Period ended 31 Mar.		Full Year
	2010	2009	2010	2009	2009
<i>(Figures in TUSD)</i>					
Cash flow from operating activities	-1 037	4 465	-1 037	4 465	7 849
Cash flow from investing activities	-3 871	-4 053	-3 871	-4 053	-17 090
Cash flow from financing activities	-519	-768	-519	-768	-2 187
Change in cash and cash equivalents	-5 427	-356	-5 427	-356	-11 428
Cash and cash equivalents, beginning of period	30 948	39 396	30 948	39 396	39 396
Effect of exchange rate fluctuations on cash held	-257	596	-257	596	2 980
Cash and cash equivalents, end of period	25 264	39 636	25 264	39 636	30 948

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	31 Mar.		Full Year
	2010	2009	2009
<i>(Figures in TUSD)</i>			
Opening balance	53 370	58 353	58 353
Total comprehensive income for the period	-1 805	2 487	-5 726
Equity issues	0	0	0
Changes in non-controlling interests	0	0	0
Other	167	150	743
Closing balance	51 733	60 990	53 370

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 31 March, 2010 were approved for issue by the Supervisory Board on 20 May, 2010.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the three months ended 31 March, 2010 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 2009 annual report, except for the impact of the adoption of the standards and interpretations described below.

The Group has as of 1 January, 2010 adopted the mandatory revised standards, amendments to existing standards and interpretations as adopted by the EU, applicable for this quarter. Their adoption has not had any significant impact on the amounts reported in this interim report but may affect the accounting for future transactions or arrangements.

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.

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 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.

6 Net financial items

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

7 Taxes

It is Funcom's assessment that the tax value of the tax losses carried forward can only be partially recognized under IAS 12. The recognized deferred tax asset is based on an assessment of the tax losses carried forward and the temporary differences arising between the accounting values and the tax bases of assets. All tax assets are primarily denominated in Swiss Francs.

8 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 expected large proportion of future operating expenses arising in NOK and CAD.

9 Average numbers of shares

	First quarter		Three months		Full year
	2010	2009	2010	2009	2009
Average number of shares (1000)	52 832	52 832	52 832	52 832	52 832

10 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;

- large-scale 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

Segment information

	Revenue from external customers		Segment profit *)	
	Period ended		Period ended	
	31. March 2010	31. March 2009	31. March 2010	31. March 2009
Large-scale MMO's	3 639	7 636	766	4 470
Free-to-play MMO games			-33	
Unallocated	196	89	60	89
Total	3 835	7 725	793	4 559
General and administrative expenses			-1 530	-1 661
Depreciation, amortization and impairment charges			-936	-1 459
Net financial items			196	145
Profit (loss) before tax (from continuing operations)			-1 477	1 585

*) 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.

	Large-scale MMO's	Free-to-play MMO's
Segment assets as at 31 December 2009	28 112	2 219
Segment assets as at 31 March 2010	30 798	2 736

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