



3Q-2010

SUMMARY

- Revenues for the third quarter of 2010 (3Q10) were 5,498 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was 928 TUSD.
- More than 150,000 players have signed up for the beta of the online arena game *Bloodline Champions*, set to be launched for pre-order customers during 4Q, with a full launch in January 2011.
- At GC in Cologne, the Company arranged a major PR event for *The Secret World*, receiving broad global press coverage for the game.
- During 3Q and 4Q the company conducted stress testing and further beta-testing of its free-to-play MMO, *Pets vs Monsters (PvM)*. Further beta testing and testing of monetization will commence in 4Q.
- During 3Q most of the development team on *Age of Conan* re-located to Montreal and realizes savings as a result of Quebec's multimedia tax credits.

FINANCIALS Q3 2010

- Revenues for 3Q10 were 5,498 TUSD, which is slightly down from 5,604 TUSD for the second quarter of 2010 (2Q10). Launch of the first expansion pack for *Age of Conan* took place in 2Q10. A significant portion of the pre-paid royalty received from Neowiz, Funcom's Korean partner for sale of *Age of Conan* in Korea, has been recognized as revenue in 3Q10. The amount recognized is based on royalties accrued for the period. Funcom has also recognized a portion of the pre-paid royalty as revenue based on its estimates on total royalties to be generated from the game in Korea. In total these amounts represent 17% of the revenues of the quarter.
- EBITDA was 928 TUSD compared to 1,644 TUSD for 2Q10.
- Operating profit (EBIT) was -183 TUSD in 3Q10 compared to 562 TUSD in 2Q10.
- Profit for the period was 467 TUSD compared to 253 TUSD for 2Q10.
- As of 30 September 2010 the equity ratio was 89 %, and the Company had 15,559 TUSD in cash.

LARGE SCALE MMOs

The Secret World

- The development of *The Secret World*, Funcom's next large scale MMO, continued to progress well during 3Q10. Around 130 people are currently working on the development of the game, and the project is fully staffed.

- The main focus of the development effort is on implementing large amount of content for the different playfields, as well as implementing and iterating on the role-play-game systems and tools for the game.
- In August, the Company conducted a major press event for *The Secret World*, presenting the start-up experience for the Templar faction of the game. The event led to broad and positive coverage in the global gaming press. The Company plans a significant increase in PR-activities for *The Secret World* from 1Q11.
- Funcom expects to sign a publishing or distribution agreement with a retail publishing partner for *The Secret World* within the next 3-4 months.

Age of Conan

- The majority of the development team of *Age of Conan* transferred to Montreal during 3Q. The Montreal location provides the team with a lower cost base.
- The development team focuses on online updates and extensions of the game.
- Increased competitive pressure from free-to-play games, hybrid models and build-up to *Cataclysm* launch has resulted in a decline in game revenues. The game remains and is expected to remain cash positive in the future.

DreamWorld Technology

- Funcom's large scale MMOs are based on the proprietary *DreamWorld Technology* game engine, and the Company has a long term investment strategy for the technology. The game technology provides Funcom with unique MMO features and a platform for developing new MMOs faster and cheaper.
- Key focus areas for this development include significant upgrades to the rendering engine, improvements in game development tools, and improvements in loading times and speeds.
- The Company made significant development in these areas during 3Q and an upgraded version of the *DreamWorld Technology* is scheduled to be implemented into *Age of Conan* during 1Q11.

Market update

- *World of Warcraft* remains the dominant game in the large scale MMO market in the Western World, and also reported more than 12 million subscribers worldwide in 3Q.
- The competition in the high-end MMO market remains relatively limited and no new major MMOs have been announced during the quarter.
- More high-end MMOs have moved to a free-to-play model or hybrid-models in the last year(s). Funcom has long experience with such models

with its *Anarchy Online* MMO, which pioneered these models in the Western World. The Company will on an ongoing basis adjust the business models of its high-end MMOs in its attempt to maximize revenue.

FREE-TO-PLAY MMOs

- Funcom plans to publish *Bloodline Champions (BLC)* during 4Q10. The game is an online multiplayer action role playing game. The game is being developed by Stunlock Studios AB. Funcom owns 42 % of the shares in Stunlock Studios AB and has a publishing agreement for *BLC*.
- *BLC* is in the later stages of beta testing, and more than 150,000 players have signed up for beta-testing of the game in the last few weeks.
- Funcom conducted stress testing and further beta testing of *Pets vs Monsters* during 3Q. The game will enter the last stage of beta testing shortly, and monetization will commence shortly thereafter.
- The Company has a limited investment program into social gaming and expects to beta-release two Facebook games in late 2010 or early 2011.

MISCELLANEOUS

Transactions with related parties

There have been no significant transactions with related parties in 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

- The revenues for 4Q are expected to be in line with 3Q.
- The Company has a defined investment program and considers its financial resources to be sufficient to develop and launch its current portfolio of products. This position is based on Funcom's various assumptions; including cost structure, revenue projections, credit opportunities, timeline on the game developments, and potential publishing agreements.

Zürich, 11 November, 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*
- *For more information about the Pets vs Monsters game, please see www.petsvsmonsters.com*
- *For more information about the Bloodline Champions game, please see www.bloodlinechampions.com*

FUNCOM N.V. - THIRD QUARTER FINANCIALS OF 2010
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Third quarter		Accumulated		Full Year
	2010	2009	2010	2009	2009
<i>(Figures in TUSD)</i>					
Revenue	5 498	5 690	14 936	19 560	23 876
Operating expenses	-4 570	-5 309	-13 101	-15 533	-19 751
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	928	380	1 835	4 027	4 125
Depreciation, amortization and impairment charges	-1 111	-10 906	-3 130	-13 842	-14 923
Total operating expenses	-5 681	-16 216	-16 231	-29 376	-34 674
Operating result ("EBIT") from continuing operations	-183	-10 526	-1 294	-9 816	-10 798
Share of result from equity accounted entities					
Net financial items	669	939	588	1 746	2 718
Profit (loss) before income taxes from continuing operations	486	-9 587	-706	-8 070	-8 080
Income taxes	-19	-44	-81	-330	-406
Profit (loss) from continuing operations	467	-9 631	-787	-8 400	-8 486
Profit from discontinued operation, net of tax	0		0		
Profit (loss) for the period	467	-9 631	-787	-8 400	-8 486
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	467	-9 631	-787	-8 400	-8 486
Earnings per share basic (USD)	0,01	-0,18	-0,01	-0,16	-0,16
Earnings per share fully diluted (USD)	0,01	-0,18	-0,01	-0,16	-0,16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	467	-9 631	-787	-8 400	-8 486
Foreign exchange translation difference	235	1 650	-705	3 514	2 700
Other	0	0	242	0	60
Total comprehensive income for the period	701	-7 982	-1 250	-4 886	-5 726
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	701	-7 982	-1 250	-4 886	-5 726

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Sep.		31 Dec.	
	2010	2009	2009	2009
<i>(Figures in TUSD)</i>				
ASSETS				
<u>Non-current assets</u>				
Deferred tax assets			279	300
Intangible assets			38 313	26 744
Tangible fixed assets			1 052	1 416
Financial investments			813	505
<u>Current assets</u>				
Trade receivables			1 355	1 230
Prepayments and other receivables			1 878	1 091
Cash and cash equivalents			15 559	34 818
Total assets			59 249	66 105
EQUITY AND LIABILITIES				
<u>Equity</u>				
Share capital			2 737	2 719
Reserves			124 095	122 997
Retained earnings			-74 170	-71 761
<u>Liabilities</u>				
Deferred tax liabilities			27	50
Long-term liabilities				
Short-term liabilities			6 561	12 100
Total equity and liabilities			59 249	66 105

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Third quarter		Period ended 30 Sep.		Full Year
	2010	2009	2010	2009	2009
<i>(Figures in TUSD)</i>					
Cash flow from operating activities	-2 161	1 111	-2 987	5 696	7 849
Cash flow from investing activities	-3 452	-4 738	-11 821	-12 463	-17 090
Cash flow from financing activities		-375	-602	-1 762	-2 187
Change in cash and cash equivalents	-5 613	-4 003	-15 410	-8 530	-11 428
Cash and cash equivalents, beginning of period	19 236	37 117	30 948	39 396	39 396
Effect of exchange rate fluctuations	1 936	1 704	20	3 952	2 980
Cash and cash equivalents, end of period	15 559	34 818	15 559	34 818	30 948

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	30 Sep.		Full Year	
	2010	2009	2009	2009
<i>(Figures in TUSD)</i>				
Opening balance			53 370	58 353
Total comprehensive income for the period			-1 250	-4 886
Equity issues			185	0
Changes in non-controlling interests			0	0
Other			355	487
Closing balance			52 661	53 955

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, 2010 were approved for issue by the Supervisory Board on 11 November, 2010.

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, 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. Investments in associated companies and jointly controlled entities are incorporated using the equity method.

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 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 3Q09 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. Funcom 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 Financial investments

Financial items consist of long term receivables and investments in the associated company Stunlock Studios AB, Sweden and the jointly controlled entity MMORPG Technologies INC, Canada. Both these companies were incorporated during Q2 2010.

9 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.

10 Average numbers of shares

	Third quarter		Nine months		Full year
	2010	2009	2010	2009	2009
Average number of shares (1000)	53 188	52 832	53 030	52 832	52 832

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;

- 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	
	30 Sep. 2010	30 Sep. 2009	30 Sep. 2010	30 Sep. 2009
Large-scale MMO's	14 740	19 471	6 741	11 018
Free-to-play MMO games	196		-198	
Unallocated		89		89
Total	14 936	19 560	6 542	11 107
General and administrative expenses			-4 707	-7 081
Depreciation, amortization and impairment charges			-3 130	-13 842
Net financial items			588	1 746
Profit (loss) before tax (from continuing operations)			-706	-8 070

*) 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 30 September 2010	34 413	3 528

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