



**1Q-2011**

## HIGHLIGHTS

- *The Secret World* reached its planned major milestone in May, when the game entered the phase of limited external beta-testing.
- A co-publishing agreement for *The Secret World* was signed with the world-leading publisher Electronic Arts in early 1Q.
- Major PR-events and announcements during 1Q resulted in broad global coverage for *The Secret World* in the gaming press, significantly raising awareness and expectations for the game.
- Funcom announced broad movie-tie-ins with the upcoming *Conan* feature film, to be released in August. The Company also announced a move towards a free-to-play business model for the *Age of Conan* game, expected to increase the revenues of the game.
- The Company's free-to-play game segment grew significantly in 1Q, with the launch of *Bloodline Champions* and the early monetization of *Pets vs Monsters* and *MyKingdom*
- The Company signed an agreement to develop, operate and market a game and service concept under the world leading *Fashion Week* brand, further extending the Company's investments into the free-to-play game segment
- Revenues in 1Q11 were 3,389 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) were -1,117 TUSD.
- Earnings before tax were impacted negatively by a non-cash accounting charge of 1,625 TUSD for change in the fair value of 5,000,000 warrants granted to Stelt Holding N.V. in 2010. Funcom has taken steps to avoid similar implications to the profit and loss account with effect from the coming AGM to be held 27 June. See further details below.

## FINANCIALS 1Q 2011

- Revenues in 1Q11 were 3,389 TUSD, compared to 5,126 TUSD in 4Q10.
- EBITDA was -1,117 TUSD compared to 766 TUSD for 4Q10.
- Operating profit (EBIT) was -2,496 TUSD for 1Q11 compared to 701 TUSD for 4Q10.
- Earnings before tax were impacted negatively by a non-cash accounting charge of 1,625 TUSD for change in the fair value of 5,000,000 warrants granted in 2010 to Stelt Holding N.V. As the warrants are not denominated in USD - the functional currency of Funcom N.V. - Funcom is required by current IFRS accounting standards to recognize the change in fair value of the warrants over the profit and loss account. Funcom has taken steps to change the currency of the warrants from NOK to USD at the coming AGM to be held 27 June, to avoid further such implications to the profit

and loss account. Please refer to note 25 on page 74 in the 2010 annual report for further details.

- Profit for the period was -4,063 TUSD compared to 810 TUSD for 4Q10 largely due to revenues from *Age of Conan* in Korea recognized in 4Q10 and the charge for change in fair value of warrants.
- By end 1Q11 the equity ratio was 74 %, and the Company had 17,142 TUSD in cash.

## LARGE SCALE MMOs

### *The Secret World*

- In January, Funcom signed a co-publishing agreement for *The Secret World* with the world-leading publisher Electronic Arts (EA). EA will promote, market and distribute the game, in partnership with Funcom.
- In May, *The Secret World*, reached a major milestone as the game entered its first limited beta testing phase, as planned.
- During 1Q, the PR efforts for *The Secret World* were ramped up significantly, with the release of in-game videos, strong presence at GDC and other PR events. This led to a significant increase in coverage, awareness and expectations for the game.
- Funcom also had sizeable marketing and PR expenses for *The Secret World* during 1Q, and the Company expects such costs to be significant in the upcoming quarters as part of building awareness and expectations leading up to the launch of *The Secret World*.
- The development of *The Secret World* progressed well during 1Q, and over 170 people are currently working on the project.
- The main focus of the development effort is on expanding the content of the game and on iterating and expanding the game systems.

### *Age of Conan*

- The Company announced a change in the business model for *Age of Conan*, towards a free-to-play structure, to be launched during 2Q/3Q. When the Company implemented a similar change for *Anarchy Online*, it resulted in higher player numbers and increased monthly revenues with around 30 %.
- A major tie-in with the upcoming *Conan* feature film (to be released during August), including new game content and sales and marketing coordination, was announced in May.
- Revenues from *Age of Conan* decreased from 4Q to 1Q, firstly due to extraordinary revenues from Korea recognized in 4Q and secondly due to a slow decline in customer numbers. In early 2Q, *Age of Conan* has seen stable revenues again.

- In March, a very significant technical upgrade to the game engine was deployed, improving both visuals and performance of the game.

#### FREE-TO-PLAY MMOs

- In 1Q, Funcom entered into a three-way partnership with IMG and 505 Games to develop a social media game and service related to the world-renowned *Fashion Week* brand. This is a significant step-up in Funcom's investment in free-to-play games. Fashion is a high-interest area in the social media space, with hundreds of millions of consumers following the fashion industry online. With the *Fashion Week* concept, the Company is making a major investment in developing an innovative, high-quality concept to engage and interact with these fashion fans.
- Funcom's free-to-play games segment grew significantly during 1Q, with the launch of *Bloodline Champions (BLC)* and early monetization tests of *Pets vs Monsters* and *MyKingdom*. The Company will continue to make focused investments into new free-to-play game concepts and extend its knowledge and competence in this area.

#### MARKET UPDATE

- The online games market continues its uninterrupted growth path. The relatively young company Zynga dominates the new social games market and commands a market valuation of 7-10 billion USD based on a handful of high-performing games and strong growth projections.
- Several transactions in the more traditional online games market also underline the attraction of this segment, with acquisitions of Bigpoint and the makers of *League of Legends* at significant valuations.
- *World of Warcraft* remains the largest high-end MMO in the Western World and has over 11 million subscribers. *Rift*, a MMO developed and published by Trion, was launched during March, and seems to be performing well.
- The common factor for the different segments of online gaming is that the high-performing games are highly profitable and therefore attract significant valuations.

#### MISCELLANEOUS

##### Transactions with related parties

There have been no significant transactions with related parties in 2011.

#### Risk factors

For information regarding risk factors for the Company and its games, please refer to note 26 in the 2010 annual report.

#### Outlook

- Funcom is currently in a phase with significant investments into new games, particularly *The Secret World* and the *Fashion Week* concept. In the opinion of the Company, both these games have break-out potential and can appeal broadly to a global audience.
- The medium term financial performance of the Company is highly influenced by the success of these game concepts, and Funcom expects negative cash flow until the launch of these games. Especially the launch of *The Secret World* is expected to result in significantly positive cash flow for Funcom.
- The Company expects the *Fashion Week* concept to start generating revenues during the fall of 2011. No launch date has been set for *The Secret World*.
- The Company also believes there is significant potential for its other free-to-play games.
- The revenues for 2Q11 are expected to be in line with 1Q11.

Zürich, 24 May, 2011

*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)
- For more information about The Secret World game, please see [www.thescretworld.com](http://www.thescretworld.com)
- For more information about the Anarchy Online game, please see [www.anarchy-online.com](http://www.anarchy-online.com)
- For more information about the Pets vs Monsters game, please see [www.petsvsmonsters.com](http://www.petsvsmonsters.com)
- For more information about the Bloodline Champions game, please see [www.bloodlinechampions.com](http://www.bloodlinechampions.com)
- For more information about Fashion Week, please see [www.fashionweeklive.com](http://www.fashionweeklive.com)

FUNCOM N.V. - FIRST QUARTER FINANCIALS OF 2011  
PRELIMINARY, NOT AUDITED, FIGURES

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	First quarter		Accumulated		Full Year
	2011	2010	2011	2010	2010
<i>(Figures in TUSD)</i>					
Revenue	3 389	3 835	3 389	3 835	20 062
Operating expenses	-4 506	-4 572	-4 506	-4 572	-17 461
<b>Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)</b>	<b>-1 117</b>	<b>-737</b>	<b>-1 117</b>	<b>-737</b>	<b>2 601</b>
Depreciation, amortization and impairment charges	-1 380	-936	-1 380	-936	-3 194
Total operating expenses	-5 885	-5 507	-5 885	-5 507	-20 655
<b>Operating result ("EBIT") from continuing operations</b>	<b>-2 496</b>	<b>-1 673</b>	<b>-2 496</b>	<b>-1 673</b>	<b>-593</b>
Share of result from equity-accounted entities	0	0	0	0	81
Net financial items	-1 567	196	-1 567	196	587
Profit (loss) before income taxes from continuing operations	-4 063	-1 477	-4 063	-1 477	75
Income taxes	0	-30	0	-30	-53
<b>Profit (loss) from continuing operations</b>	<b>-4 063</b>	<b>-1 507</b>	<b>-4 063</b>	<b>-1 507</b>	<b>23</b>
Profit from discontinued operation, net of tax	0	0	0	0	0
<b>Profit (loss) for the period</b>	<b>-4 063</b>	<b>-1 507</b>	<b>-4 063</b>	<b>-1 507</b>	<b>23</b>
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-4 063	-1 507	-4 063	-1 507	23
Earnings per share basic (USD)	-0,08	-0,03	-0,08	-0,03	0,00
Earnings per share fully diluted (USD)	-0,08	-0,03	-0,08	-0,03	0,00

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Profit (loss) for the period	-4 063	-1 507	-4 063	-1 507	23
Foreign exchange translation difference	276	-298	276	-298	-603
Other	0				242
<b>Total comprehensive income for the period</b>	<b>-3 787</b>	<b>-1 805</b>	<b>-3 787</b>	<b>-1 805</b>	<b>-339</b>
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-3 787	-1 805	-3 787	-1 805	-339

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	31 March		31 Dec.
	2011	2010	2010
<i>(Figures in TUSD)</i>			
<b>ASSETS</b>			
<u>Non-current assets</u>			
Deferred tax assets		329	277
Intangible assets		44 204	33 993
Tangible fixed assets		1 846	712
Financial investments		957	493
<u>Current assets</u>			
Trade receivables		1 309	714
Prepayments and other receivables		2 652	850
Cash and cash equivalents		17 142	25 264
<b>Total assets</b>	<b>68 439</b>	<b>62 303</b>	<b>70 582</b>
<b>EQUITY AND LIABILITIES</b>			
<u>Equity</u>			
Share capital		2 755	2 719
Reserves		122 794	123 497
Retained earnings		-75 196	-74 483
<u>Liabilities</u>			
Deferred tax liabilities		10	27
Long-term liabilities		11 610	9 906
Short-term liabilities		6 466	10 543
<b>Total equity and liabilities</b>	<b>68 439</b>	<b>62 303</b>	<b>70 582</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	First quarter		Period ended 31 March		Full Year
	2011	2010	2011	2010	2010
<i>(Figures in TUSD)</i>					
Cash flow from operating activities	-2 044	-1 037	-2 044	-1 037	-1 088
Cash flow from investing activities	-3 352	-3 871	-3 352	-3 871	-15 670
Cash flow from financing activities	100	-519	100	-519	9 404
Change in cash and cash equivalents	-5 297	-5 427	-5 297	-5 427	-7 355
Cash and cash equivalents, beginning of period	22 693	30 948	22 693	30 948	30 948
Effect of exchange rate fluctuations	-254	-257	-254	-257	-900
Cash and cash equivalents, end of period	17 142	25 264	17 142	25 264	22 693

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	31 March		Full Year
	2011	2010	2010
<i>(Figures in TUSD)</i>			
Opening balance		53 806	53 370
Total comprehensive income for the period		-3 787	-1 805
Equity issues		201	0
Other		134	167
Closing balance		50 353	51 733

## 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, 2011 were approved for issue by the Supervisory Board on 24 May, 2011.

### 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, 2011 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 2010 annual report.

The Group has as of 1 January, 2011 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. Management has not yet evaluated the impact on the financial statements of standards issued but which have an adoption date on 1 January 2012 or later.

Standard/ Interpretation	Title	Date of issue	Applicable to accounting periods commencing on
Revised IAS 24	Related Party Disclosures	November 2009	1 January 2011
IAS 32 amendment	Classification of Rights Issues	October 2009	1 February 2010
Amendment of IFRS 1	Limited Exemption from comparative IFRS 7 Disclosures for First-time Adopters	January 2010	1 July 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	November 2009	1 July 2010
Amendment to IFRIC 14	Prepayments of a Minimum Funding Requirement	November 2009	1 January 2011
Improvements to IFRSs (various Standards and Interpretations)	Improvements to IFRSs	May 2010	1 January 2011

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. Funcom points are credits that are either sold separately to the customer or awarded as an incentive or as compensation. Funcom recognizes revenues related to sale of points on a straight-line basis over the estimated average subscription period. 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.

### **4 Operating expenses**

Personnel cost, marketing, office rent and operating cost for the Age of Conan game 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.

### **6 Net financial items**

Net financial items mainly consist of interest earned, exchange rate differences and interest accrued on the long-term loan detailed in note 9 below.

On 29 December 2010, Funcom entered into a loan agreement with Stelt Holding N.V, currently the Company's largest shareholder. In connection with the debt issue, the Company also issued 5 million warrants, entitling Stelt Holding N.V to acquire an equal number of ordinary shares in Funcom at an exercise price of 10 NOK each. These warrants are, due to specific accounting requirements (described in note 2.10 to the 2010 annual report), classified as financial liabilities (derivative) and measured at fair value in the Company's financial statements.

Included in financial items for the three months ended 31 March 2011 is the change in fair value of this item of 1,625 TUSD. The fair value of the warrants has increased, largely due to an increase in the listed share price of Funcom, and a weakening of the US dollar against the Norwegian krone. This effect has a significant effect on the income statement for the first three months, but has no cash impact, currently or in the future, as the warrants – if exercised - will be settled in equity instruments (Funcom shares). Moreover, there is an agreement between the Company and the warrant-holder to change the terms of the contract, entailing that the warrants will be classified as equity, with no further impact on profit or loss subsequent to the AGM to be held on 27 June.

### **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 2Q 2010.

### **9 Long-term liabilities**

Long-term liabilities mainly consist of a 10,000 TUSD loan granted from Stelt Holding N.V. In connection with the grant of the loan, Stelt Holding N.V. was granted 5 million warrants to subscribe for shares in Funcom N.V. The exercise price for the warrants is 10 NOK each. The loan and the warrants have been recognized at their fair value in the Statement of Financial Position at the time of the grant. The warrants have been adjusted to their fair value at 31 March 2011.

## 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.

## 11 Average numbers of shares

	First quarter		Three months		Full year
	2011	2010	2011	2010	2010
Average number of shares (1000)	53 255	52 832	53 255	52 832	53 065

## 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;

- large-scale MMOs - like Age of Conan and Anarchy Online
- 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 2011	31 March 2010	31 March 2011	31 March 2010
Large-scale MMO's	2 834	3 639	828	766
Free-to-play MMO games	555		63	-33
Unallocated		196		60
Total	3 389	3 835	891	793
General and administrative expenses			-2 008	-1 530
Depreciation, amortization and impairment charges			-1 380	-936
Net financial items			-1 567	196
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-4 063</b>	<b>-1 477</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.

	Large-scale MMO's	Free-to-play MMO's
Segment assets as at 31 December 2010	37 688	3 677
Segment assets as at 31 March 2011	39 962	3 940

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