



2Q-2011

HIGHLIGHTS

- The launch month of *The Secret World* has been set to April 2012 by the Co-publishing partners Funcom and EA.
- The beta-sign-up program for *The Secret World* will commence in the near future.
- The development of *The Secret World* progressed well during 2Q. Funcom continues to strengthen awareness and expectations towards the game, through targeted press- and community events.
- *Age of Conan - Unchained*, Funcom's hybrid free-to-play version of the game was launched on 1 July. The launch has resulted in a significant increase in activity in the game and more than doubled the revenues from the game in July compared to June. The day by day revenue from the game is still around twice as high as before the launch of the free-to-play version.
- The development of *Fashion Week Live*, the Company's upcoming Facebook game, in partnership with IMG and 505 Games, proceeded well. The game is on track for a launch during fall 2011.
- On 24 August, the Company announced a licensing Agreement with Innova for a localized Russian version of the game *Bloodline Champions*. Innova, one of the most successful online game publishers in Russia, will publish the game in Russian speaking markets.
- *Pets vs Monsters* continued the monetization testing during 2Q, with promising results. The Company will shortly explore larger distribution channels to test whether profitable marketing can be replicated in those channels
- Revenues in 2Q11 were 3,081 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) were -2,060 TUSD.

FINANCIALS 2Q 2011

- Revenues in 2Q11 were 3,081 TUSD, compared to 3,389 TUSD in 1Q11.
- EBITDA was -2,060 TUSD compared to -1,117 TUSD for 1Q11.
- Operating profit (EBIT) was -3,471 TUSD for 2Q11 compared to -2,496 TUSD for 1Q11.
- Earnings before tax for 2Q11 were impacted positively by 750 TUSD for change in the fair value of warrants granted to Stelt Holding N.V. in 2010. With effect from 27 June 2011, the warrants are denominated in USD - the functional currency of Funcom N.V. From this date Funcom has reclassified the warrants from long-term liabilities to equity and no change in fair value of the options will be recognized. The reclassification has impacted equity positively by 1,850 TUSD. Please refer to note 6 to this half year report and note 25 on page 74 in the 2010 annual report for further details.

- Profit for the period was -2,967 TUSD compared to -4,063 TUSD for 1Q11.
- By end 2Q11 the equity ratio was 75 %, and the Company had 12,892 TUSD in cash.

LARGE SCALE MMOs

The Secret World

- The launch month for *The Secret World* was set to April 2012, by the Co-publishers Funcom and EA.
- Funcom announced that the beta-sign-up program for *The Secret World* will commence in the near future.
- Funcom continued its higher PR activity level through 2Q and so far in 3Q, through press events, reveals of in-game material and through community activities. The Company is satisfied with the build-up in expectations and awareness for the game and in the opinion of the Company the game tracks better than *Age of Conan* at the same stage in development.
- The development of *The Secret World* progressed well during 2Q and so far in 3Q. The focus of the development at the moment is on iterating on game systems and further extending the content of the game. During the fall, the beta testing program for the game will be intensified and extended, progressively involving more testers in the different phases of the beta program.
- The Company considers the technical risk related to the launch of the game to be significantly lower than during the launch of *Age of Conan* since *The Secret World* will launch on the *DreamWorld Technology 2.0* game engine, the next version of the game engine that powers *Age of Conan*.
- Funcom expects a majority of the client sales for *The Secret World* to come from digital channels. Funcom also expects significant revenues from the in-game store of *The Secret World*, based on the experiences from the in-game stores of *Anarchy Online* and *Age of Conan*. These two effects are expected to significantly increase the revenues per customer during the launch of *The Secret World*, compared to *Age of Conan*. See the Quarterly Report Presentation for financial target scenario for *The Secret World* and for further details.
- During 2Q and so far in 3Q Funcom has incurred sizeable build-up, marketing and PR expenses for *The Secret World* and the Company expects this to continue in the upcoming quarters as part of building awareness and expectations leading up to the launch.

Age of Conan

- Funcom launched the hybrid free-to-play version of *Age of Conan*, *Age of Conan Unchained* on 1 July. During July, the revenues from the game more than doubled, and the day-to-day revenues are still almost double of those before the launch of the free-to-play model. The change in business model has also resulted in more players subscribing to the game.
- The company plans to release a new Adventure Pack for the game in the near future, featuring several of the characters and locations from the newly released Conan movie.
- For 3Q, revenues from *Age of Conan* are expected to be significantly higher than for 2Q, due to the performance of the free-to-play model.

FREE-TO-PLAY MMOs

- Funcom, IMG and 505 Games have partnered to develop a social media game and service called *Fashion Week Live*. 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 Live* concept, the Company is making a major investment in developing an innovative, high-quality concept to engage and interact with these fashion fans. The *Fashion Week Live* project progressed well during 2Q and is on track for a launch during fall 2011.
- On 24 August, the Company announced a partnership with Innova, a leading Russian online publisher, for publishing a localized version of the game *Bloodline Champions* in the Russian speaking territory.
- As a result of the work performed on *Pets vs Monsters* in the first half of 2011, the conversion and monetization of the game has steadily improved. The game will now be taken to the next level of monetization testing, through larger distribution partners, to validate whether profitable marketing can be replicated in larger distribution channels.

MISCELLANEOUS

Transactions with related parties

Refer to note 6 regarding warrants granted to Stelt Holding N.V. There have been no other 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 has announced the launch month of *The Secret World* to be April 2012. The Company expects significant, positive cash flow from the launch of this game. The current target of the Company for the first 12 months following launch is to sell 30 % more game clients compared to *Age of Conan*. In addition the Company targets an increase in revenue per customer amounting to 35 % of the subscription revenues through sale of products from the in-game store. Funcom also targets significantly improved customer retention in *The Secret World* compared to what *Age of Conan* experienced during launch year. Further, the Company expects the majority of client sales to be through digital channels, based on the market development of the last years, also positively impacting the revenues from the game. See financial scenarios and further details included in the 2Q presentation.
- The medium term financial performance of the Company is influenced by a number of factors, the success of its game concepts being the most significant. Funcom is currently making large investments into new game concepts, primarily *Fashion Week Live* and *The Secret World*, and expects negative cash flow until the launch of these game concepts.
- Funcom expects significantly higher revenues in 3Q than in 2Q due to the improved financial performance of *Age of Conan*.
- The Company expects the *Fashion Week Live* concept to start generating revenues during the fall of 2011.

Zürich, 25 August, 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
- 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.thesecretworld.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
- For more information about *Fashion Week*, please see www.fashionweeklive.com

FUNCOM N.V. - HALF YEAR FINANCIALS OF 2011
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(Figures in TUSD)</i>	Second Quarter		Accumulated		Full Year
	2011	2010	2011	2010	2010
Revenue	3 081	5 604	6 470	9 439	20 062
Operating expenses	-5 141	-3 960	-9 647	-8 531	-17 461
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-2 060	1 644	-3 177	907	2 601
Depreciation, amortization and impairment charges	-1 411	-1 082	-2 791	-2 018	-3 194
Total operating expenses	-6 552	-5 042	-12 438	-10 550	-20 655
Operating result ("EBIT") from continuing operations	-3 471	562	-5 968	-1 111	-593
Share of result from equity-accounted entities	6	0	6	0	81
Net financial items	498	-277	-1 068	-81	587
Profit (loss) before income taxes from continuing operations	-2 967	284	-7 030	-1 192	75
Income taxes		-32		-62	-53
Profit (loss) from continuing operations	-2 967	253	-7 030	-1 254	23
Profit from discontinued operation, net of tax	0	0	0	0	0
Profit (loss) for the period	-2 967	253	-7 030	-1 254	23
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-2 967	253	-7 030	-1 254	23
Earnings per share basic (USD)	-0,06	0,00	-0,13	-0,02	0,00
Earnings per share fully diluted (USD)	-0,06	0,00	-0,13	-0,02	0,00

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-2 967	253	-7 030	-1 254	23
Foreign exchange translation difference	523	-641	523	-939	-603
Other	0	242		242	242
Total comprehensive income for the period	-2 444	-147	-6 507	-1 951	-339
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-2 444	-147	-6 507	-1 951	-339

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(Figures in TUSD)</i>	30 June		31 Dec.
	2011	2010	2010
ASSETS			
<u>Non-current assets</u>			
Deferred tax assets		335	268
Intangible assets		45 660	36 195
Tangible fixed assets		1 763	1 121
Financial investments		957	778
<u>Current assets</u>			
Trade receivables		1 374	1 254
Prepayments and other receivables		3 707	989
Cash and cash equivalents		12 892	19 236
Total assets		66 687	59 841
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital		2 761	2 737
Reserves		124 113	123 955
Retained earnings		-77 077	-74 872
<u>Liabilities</u>			
Deferred tax liabilities		10	27
Long-term liabilities		9 081	9 906
Short-term liabilities		7 799	7 994
Total equity and liabilities		66 687	59 841

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Figures in TUSD)</i>	Second Quarter		Period ended 30 June		Full Year
	2011	2010	2011	2010	2010
Cash flow from operating activities	-2 148	211	-4 193	-826	-1 088
Cash flow from investing activities	-2 687	-4 498	-6 039	-8 369	-15 670
Cash flow from financing activities	1 581	-83	1 681	-602	9 404
Change in cash and cash equivalents	-3 254	-4 371	-8 551	-9 798	-7 355
Cash and cash equivalents, beginning of period	17 142	25 264	22 693	30 948	30 948
Effect of exchange rate fluctuations	-996	-1 657	-1 250	-1 914	-900
Cash and cash equivalents, end of period	12 892	19 236	12 892	19 236	22 693

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(Figures in TUSD)</i>	30 June		Full Year
	2011	2010	2010
Opening balance	53 806	53 370	53 370
Total comprehensive income for the period	-6 507	-1 951	-339
Equity issues	282	185	191
Reclassification of warrants from liabilities to equity	1 850	0	0
Share-based payments	366	216	584
Closing balance	49 797	51 820	53 806

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 six months ended 30 June 2011 were approved for issue by the Supervisory Board on 25 August 2011.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the six months ended 30 June 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

*) The revised IAS 24 *Related Party Disclosures* was early adopted with effect from the financial year 2010.

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, interest accrued on long-term loans detailed in note 9 below, in addition to a change in fair value of issued warrants detailed in below in this note.

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 were up to 27 June 2011 classified as financial liabilities (derivative) and measured at fair value through profit or loss in the Company's financial statements, due to specific accounting requirements (described in note 2.10 to the 2010 annual report). The change in fair value of this item amounting to 875 TUSD (cost of 1,625 TUSD in 1Q and income of 750 TUSD in 2Q) is included in financial items in the income statement. The change in the fair value of the warrants is largely due to a change in the share price of Funcom, and a change of the US dollar against the Norwegian krone. This significant effect on the income statement for the first six months has no cash impact, currently or in the future, as the warrants – if exercised - will be settled in equity instruments (Funcom shares). Following the 27 June 2011 annual general meeting the exercise price of the warrants were changed with effect from the same date from 10 NOK to 1.67 USD each. As a consequence of this conversion of the exercise price to the Company's functional currency, the book value (fair value) of the warrants at 27 June 2011 (1,850 TUSD) were reclassified from long-term liabilities to equity.

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 Liabilities

Long-term liabilities consist of an interest-bearing loan from Stelt Holding N.V. Stelt Holding N.V. has been granted 5 million warrants to subscribe for shares in Funcom N.V. The loan and the warrants were recognized as liabilities at their fair value in the Statement of Financial Position at the time of the grant. The

loan was subsequently measured at amortized cost, whilst the warrants were measured at fair value through profit or loss. The warrants were reclassified to equity on 27 June 2011 – see further details in note 6. Total interest-bearing debt amounts to appr. 12,000 TUSD.

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

11 Average numbers of shares

	Second quarter		Half year		Full year
	2011	2010	2011	2010	2010
Average number of shares (1000)	53 515	52 983	53 439	52 908	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 January-June		Segment profit (loss) *) January-June	
	2011	2010	2011	2010
Large-scale MMO's	5 365	9 243	544	4 069
Free-to-play MMO games	1 105		210	-28
Unallocated		196		169
Total	6 470	9 439	754	4 210
General and administrative expenses			-3 930	-3 303
Depreciation, amortization and impairment charges			-2 791	-2 018
Net financial items			-1 062	-81
Profit (loss) before tax (from continuing operations)			-7 030	-1 192

	Revenue from external customers April-June		Segment profit (loss) *) April-June	
	2011	2010	2011	2010
Large-scale MMO's	2 531	5 604	-284	3 303
Free-to-play MMO games	550		147	5
Unallocated				109
Total	3 081	5 604	-137	3 417
General and administrative expenses			-1 922	-1 773
Depreciation, amortization and impairment charges			-1 411	-1 082
Net financial items			505	-277
Profit (loss) before tax (from continuing operations)			-2 966	285

*) Segment profit (loss) 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 30 June 2011	41 304	4 062

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

Directors' responsibility statement

The members of the Management Board, as required by section 5:25d, paragraph 2, under c of the Dutch Financial Supervision Act (Wet op het financieel toezicht), confirm that to the best of their knowledge:

The Consolidated Interim Financial Statements for the six months ended 30 June, 2011 give a true and fair view of the assets, liabilities, financial position and profit or loss of Funcom N.V. and its consolidated companies, and

The Interim Directors' Report gives a true and fair view of:

- the position of Funcom N.V. and its consolidated companies as at 30 June, 2011,
- the development and performance of the business during the first six months of the financial year of Funcom N.V. and its consolidated companies, and
- the expected development and performance of the business, provided that the interests of Funcom N.V. and its consolidated companies are not harmed by disclosure, with particular attention for the investments, and the circumstances of which the development of revenues and profitability are dependent.

Zürich, 25 August, 2011

The Management Board of Funcom N.V.

Pieter van Tol (member of the board)

Frank Sagnier (member of the board)

Trond A. Aas (member of the board and CEO)