



2Q-2012

HIGHLIGHTS

- The launch of *The Secret World* commenced with Early Access on 29 June, with full commercial launch on 3 July. The launch was executed solidly with no technical issues or difficulties.
- Initial sales of *The Secret World* have been below expectations, as communicated in the stock notice of the 10 August. The Company still considers it likely that sales for the 12 months period following launch of the game will be less than half of what was presented in the Conan-like scenario in the 1Q presentation. The company has recognized an impairment charge (adjustment of the book value of the game) amounting to 35,000 TUSD.
- Press feedback on *The Secret World* has been mixed, with some major press outlets in the US having rated the game as low as 50 %, which have impacted sales of the game significantly.
- The week before the launch of *The Secret World* NC Soft announced the launch date for *Guild Wars 2* to be the 28 August. Blizzard followed up the week later with announcing a 25 September release date for the new expansion to *World of Warcraft*; "Mists of Pandaria". Both of these announcements have impacted sales of a new brand like *The Secret World* further.
- Player feedback on *The Secret World* have been very strong, with the game currently being one of the highest user-rated games on Metacritic with a score of 8.4 and the top position on industry site MMORPG.com with a 8.7 user score. The MMO gaming press has also consistently rated the game as high as 80+.
- More than 200,000 players have purchased *The Secret World* and the Company is about to launch several initiatives to acquire more players.
- The Company is currently undergoing large cost cutting measures including reduction of around 50 % of its staff in all offices. The company is working towards ensuring that all of the live games as well as the company are cash-flow positive.
- The Company signed a deal with LEGO in 2Q to develop, launch and operate an online game based on their highly successful Minifigures line.
- The Company will concentrate its new development on more focused, systems-driven games that have a high degree of community and player interaction. These games require less time and development cost to bring to market.
- Revenues in 2Q12 were 2,557 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) were -9,850 TUSD.

FINANCIALS

- Revenues in 2Q12 were 2,557 TUSD, compared to 3,081 TUSD in 2Q11.
- EBITDA, heavily impacted by launch cost including marketing for *The Secret World*, was -9,850 TUSD in 2Q12 compared to -2,060 TUSD for 2Q11.
- Operating profit (EBIT), heavily impacted by impairment charges recognized, was -47,523 TUSD for 2Q12 compared to -3,471 TUSD for 2Q11.
- Profit for the period was -49,190 TUSD compared to -2,967 TUSD for 2Q11.
- Due to the expected lower initial revenues from *The Secret World*, as announced in the stock notice of 10 August 2012, the Company has implemented significant cost cut initiatives, involving reduction of personnel. Going forward, the Company will carefully consider the need for further cost reduction measures aiming at bringing the company into a cash flow positive situation.
- Also due to the above mentioned, the Company has made an impairment charge on the book value of *The Secret World* amounting to 35,000 TUSD. In addition the Company has made an impairment charge on the game *Pets vs. Monsters* of 1,000 TUSD. Please refer to the accompanying notes to the 2Q 2012 report for further details.

LARGE SCALE MMOs

The Secret World

- Player and community feedback are very strong, with the game consistently rating much higher amongst users than with the general press.
- The first of several major content updates to the game launched on 31 July.
- Sales of *The Secret World* have been skewed even more towards digital channels than initially expected. Through the combination of in-game store revenue, up sell packages and the skew towards sales through the digital direct channel, the Company has higher revenue per user for *The Secret World* than for any of its previous games.
- The Company will work actively on using all the tools available to increase player acquisition, as player feedback and retention initially seems strong, and address key areas for improvement of the game.

Other large scale MMO's

- Player numbers and revenue from *Age of Conan* and *Anarchy Online* were fairly stable in 2Q, seeing some additional decline from the launch of *Diablo III* in the middle of the quarter.
- These games are cash flow positive and will remain so in the foreseeable future.
- The focus of the development of these games is to add new features and content for the player base to extend player engagement time.

FREE-TO-PLAY MMOs

- *Fashion Week Live* continued to sign more brands to be part of the game, launching collections from DKNY, Mara Hoffman and others during the summer. The current focus for further development of the game, is on acquisition, retention and monetization. The Company is operating the game together with 505 Games.
- The Company has established a strong team to build *the LEGO* online game, working towards the first milestone later this autumn.
- The Company is working actively on securing other similar opportunities.

MISCELLANEOUS

Transactions with related parties

There have been no significant transactions with related parties in 2012.

Risk factors

For information regarding risk factors for the Company and its games, please refer to note 28 in the 2011 annual report. For evaluations of the risks related to *The Secret World*, Funcom encourages investors to seek information about the industry in general and Funcom in specific from analyst reports, industry reports, game re-views etc. Several different financial scenarios should be evaluated when analyzing the potential of *The Secret World*, as done by financial analysts. The financial performance of new games is uncertain.

Outlook

- Funcom will in the future direct its resources towards smaller, more focused online games.
- With the proprietary *Dreamworld* engine the company has some of the best tools and expertise available to build and launch these games on time and on budget.
- Funcom is currently working on bringing the Company cash flow positive. The medium and long term financial performance of the Company is influenced by a number of factors; the performance of *The Secret World* being the most important together with the ongoing cost reduction program.
- Under the current assumptions for cost, revenue, investments, development timeline and other assumptions affecting the financial resources of the Company, Funcom considers its financial resources to be sufficient to meet its financial obligations. Investors should however be aware that such assumptions also involve risk factors outside the control of the Company; like the impact of the launch of a competitor.
- The Company expects revenues for 3Q 2012 to be significantly higher than in 2Q 2012 due to the launch of *The Secret World*. Please refer to note 2.4 and the 2011 annual report for the principles related to revenue recognition.

Badhoevedorp, The Netherlands, 27 August 2012

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 Secret World* game, please see www.theseecretworld.com
- For more information about the *Age of Conan* game, please see www.ageofconan.com
- For more information about the *Anarchy Online* game, please see www.anarchy-online.com
- For more information about *Fashion Week Live*, please see www.fashionweeklive.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. - HALF YEAR FINANCIALS OF 2012
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(Figures in TUSD)</i>	Second Quarter		Accumulated		Full Year
	2012	2011	2012	2011	2011
Revenue	2 557	3 081	4 850	6 470	15 519
Operating expenses	-12 407	-5 141	-19 212	-9 647	-21 002
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-9 850	-2 060	-14 362	-3 177	-5 482
Depreciation, amortization and impairment charges	-37 674	-1 411	-38 992	-2 791	-7 829
Total operating expenses	-50 081	-6 552	-58 203	-12 438	-28 831
Operating result ("EBIT") from continuing operations	-47 523	-3 471	-53 353	-5 968	-13 312
Share of result from equity-accounted entities	1	6	-33	6	-17
Net financial items	-1 442	498	-1 656	-1 068	-2 882
Profit (loss) before income taxes from continuing operations	-48 964	-2 967	-55 043	-7 030	-16 210
Income taxes	-226		-291		-85
Profit (loss) from continuing operations	-49 190	-2 967	-55 334	-7 030	-16 295
Profit from discontinued operation, net of tax	0	0	0	0	0
Profit (loss) for the period	-49 190	-2 967	-55 334	-7 030	-16 295
Attributable to shareholders of Funcom N.V.	-49 190	-2 967	-55 334	-7 030	-16 295
Earnings per share basic (USD)	-0,79	-0,06	-0,93	-0,13	-0,30
Earnings per share fully diluted (USD)	-0,79	-0,06	-0,93	-0,13	-0,30

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-49 190	-2 967	-55 334	-7 030	-16 295
Foreign exchange translation difference	214	523	124	523	520
Other	0	0	0	0	13
Total comprehensive income for the period	-48 976	-2 444	-55 209	-6 507	-15 762
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-48 976	-2 444	-55 209	-6 507	-15 762

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(Figures in TUSD)</i>	30 June		31 Dec.
	2012	2011	2011
ASSETS			
<i>Non-current assets</i>			
Deferred tax assets		353	558
Intangible assets	19 151	45 660	49 879
Tangible fixed assets	1 888	1 763	2 016
Financial investments	888	957	921
<i>Current assets</i>			
Trade receivables	3 170	1 374	1 353
Prepayments and other receivables	4 740	3 707	4 173
Cash and cash equivalents	16 928	12 892	19 428
Total assets	47 118	66 687	78 327
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	3 419	2 761	2 777
Reserves	149 387	124 113	129 306
Retained earnings	-145 082	-77 077	-89 165
<i>Liabilities</i>			
Deferred tax liabilities	299	10	297
Long-term liabilities	14 094	9 081	22 104
Deferred revenue	6 993	1 596	1 060
Short-term loans and borrowings	8 810	3 209	6 969
Other short term liabilities	9 198	2 994	4 980
Total equity and liabilities	47 118	66 687	78 327

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Figures in TUSD)</i>	Second Quarter		Period ended 30 June		Full Year
	2012	2011	2012	2011	2011
Cash flow from operating activities					
Profit (loss) before income tax	-48 964	-2 967	-55 043	-7 030	-16 210
Adjustments for:					
Depreciation, amortization and impairment	37 674	1 411	38 992	2 791	7 829
Share-based payments	159	233	382	366	703
Share of result from equity-accounted entities		-6	33	-6	17
Effect of exchange rate fluctuations	633	574	351	4	359
Changes in working capital	8 258	-1 393	9 445	-319	916
Net cash from operating activities	-2 241	-2 148	-5 840	-4 193	-6 386
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-4 164	-2 655	-8 477	-6 089	-18 361
Investment in/loan to (from) equity-accounted entities	-75	-32	-216	50	110
Net cash from investing activities	-4 239	-2 687	-8 693	-6 039	-18 251
Cash flow from financing activities					
Net proceeds from issue of share capital	10 109	81	10 853	282	480
Proceeds / repayments from (of) borrowings and leases	1 505	1 500	1 505	1 399	21 162
Net cash from financing activities	11 614	1 581	12 359	1 681	21 643
Change in cash and cash equivalents	5 133	-3 254	-2 175	-8 551	-2 995
Cash and cash equivalents, beginning of period	12 234	17 142	19 428	22 693	22 693
Effect of exchange rate fluctuations	-439	-996	-325	-1 250	-270
Cash and cash equivalents, end of period	16 928	12 892	16 928	12 892	19 428

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(Figures in TUSD)</i>	30 June		Full Year
	2012	2011	2011
Opening balance	42 918	53 806	53 806
Total comprehensive income for the period	-55 209	-6 507	-15 762
Equity issues	20 713	282	480
Reclassification of warrants from liabilities to equity		1 850	1 850
Conversion rights reserve	-1 080	0	1 840
Share-based payments	382	366	703
Closing balance	7 724	49 797	42 918

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 2012 were approved for issue by the Supervisory Board on 27 August 2012.

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 2012 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 2011 annual report. The company also adopted a new revenue recognition accounting policy with respect to new products introduced in 2Q2012 (i.e. game software and bundled products).

The Group has as of 1 January 2012 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 2013 or later.

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 initially recognized at their cost price and subsequently measured using the cost method (i.e. historical cost less accumulated amortization and accumulated impairment losses). A review to assess whether there are indicators of impairment is undertaken at the end of each reporting period. In addition, intangible assets not yet available for use are tested for impairment annually.

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.

In-game items are items that can be purchased on-line from in-game stores or are awarded as incentive or compensation. Revenue from sales of in-game items is recognized at the time of sale.

Revenues from the sales of game software, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized on a straight-line basis over the estimated customer life. The company enters into multiple-element revenue arrangements where it provides combinations of game software and subscription or subscription and in-game items. The Company accounts for revenues from each item separately following the revenue recognition policies above. 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 game software, subscriptions, in-game items 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 on a systematic basis over their useful life which normally does not exceed five years. The company applies a diminishing balance amortization method which reflects the pattern of consumption of the future economic benefits. If that pattern cannot be determined reliably the company uses the straight-line method.

In 2Q12 Funcom recognized an impairment loss of 35,000 TUSD in the statement of comprehensive income on the cash generating unit that contains The Secret World – being a game in the large scale MMO segment. Funcom has also recognized an impairment loss of 1,000 TUSD to the cash generating unit that contains the game Pets vs. Monsters – being a game in the free-to-play MMO segment. Both of the impairment losses were recognized due to lower revenue estimates. The recoverable amount of the assets was determined based on the assets' value in use, using a discount rate of 12 % (2011: 13%).

6 Net financial items

Net financial items mainly consist of interest earned, exchange rate differences and interest accrued on loans.

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. The 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.

9 Liabilities

Long-term liabilities consist of 9,582 TUSD interest-bearing loan from Stelt Holding N.V., 4,349 TUSD convertible bonds and 164 TUSD non-interest bearing reimbursable government contribution.

On 22 December 2011 Funcom issued 150 convertible bonds with a face value of 100 TUSD (total 15,000 TUSD) and 10 % coupon due on 22 December 2014 and convertible into common shares of Funcom N.V. at a price of 1.37 USD per share. The interest is payable semi-annually starting 22 June 2012. It was determined that the convertible bonds represent a compound financial instrument in accordance with IAS 32. Funcom recognized a liability of 12,572 TUSD in the Statement of Financial Position. This is the fair value of the liability, applying an interest rate (discount rate) of a similar liability that does not have a conversion feature. An equity component of 1,840 TUSD was also recognized in the Statement of Financial Position as a residual amount after deducting the fair value of the financial liability from the proceeds from the bonds as a whole. The liability is subsequently measured at amortized cost.

88 bonds were converted into 6,423,296 common shares by the end 2Q12.

The carrying value of interest-bearing debt at the end of 2Q12 amounts to approximately 22,617 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 expectedly large proportion of future operating expenses arising in NOK and CAD.

Funcom is required to maintain a deposit of USD 2.5 million with a Canadian bank for the use of one of the credit facilities with a fair market value of USD 6 million.

11 Average numbers of shares

	Second quarter		Half year		Full year
	2012	2011	2012	2011	2011
Average number of shares (1000)	62 218	53 515	59 554	53 439	53 561

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 The Secret World and Age of Conan
- 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 (loss) *)	
	January - June		January - June	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Large-scale MMO's	4 384	5 365	-2 380	544
Free-to-play MMO games	466	1 105	178	210
Total	4 850	6 470	-2 202	754
General and administrative expenses			-12 160	-3 930
Depreciation, amortization and impairment charges			-38 992	-2 791
Share of result from equity-accounted entities			-33	6
Net financial items			-1 657	-1 068
Profit (loss) before tax (from continuing operations)			-55 043	-7 030

	Revenue from external customers		Segment profit (loss) *)	
	April - June		April - June	
	2012	2011	2012	2011
Large-scale MMO's	2 394	2 531	-1 302	-284
Free-to-play MMO games	164	550	239	147
Total	2 558	3 081	-1 062	-137
General and administrative expenses			-8 787	-1 922
Depreciation, amortization and impairment charges			-37 674	-1 411
Share of result from equity-accounted entities			1	6
Net financial items			-1 442	499
Profit (loss) before tax (from continuing operations)			-48 964	-2 965

*) 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.

	Free-to-play	
	Large-scale MMO's	MMO's
Segment assets as at 31 December 2011	46 417	2 963
Segment assets as at 30 June 2012	17 152	1 770

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, 2012 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 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 relevant share transactions with related parties during the first six months of the financial year.
- 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.
- the relevant risks and uncertainties for the remaining six months of the financial year

Badhoevedorp, 27 August, 2012

The Management Board of Funcom N.V.

Pieter van Tol (member of the board)

Ole Schreiner (member of the board and CEO)