



4Q-2010

HIGHLIGHTS

- Revenues for the fourth quarter of 2010 (4Q10) were 5,126 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) was 766 TUSD.
- In late 4Q, Funcom entered into a loan agreement with Stelt Holding NV, the largest shareholder, for 10 MUSD, strengthening the financial position of the Company.
- A major milestone was reached in January, when Funcom signed a co-publishing agreement for the upcoming MMO, *The Secret World*, with Electronic Arts (EA), a world leading game publisher. Funcom and EA will cooperate on the marketing, PR and sales of the game.
- Funcom announced a three-way partnership with IMG and 505-games in February, to develop and operate a fashion social game and service related to the world-renowned Fashion Week brand. For Funcom this constitutes a significant increase in its commitment to the rapidly expanding Facebook and social media gaming market.
- Funcom published its first external product in January, *Bloodline Champions*, a focused player-vs-player online game developed by Stunlock Studios. The game has so far received excellent review scores from global press and has established a significant player base.
- Funcom currently has three casual MMOs and social games in beta-phases of development and testing.

FINANCIALS 4Q 2010

- Revenues for 4Q10 were 5,126 TUSD, compared to 5,498 TUSD for the third quarter of 2010 (3Q10).
- EBITDA was 766 TUSD compared to 928 TUSD for 3Q10.
- Operating profit (EBIT) was 701 TUSD for 4Q10 compared to -183 TUSD for 3Q10.
- Profit for the period was 810 TUSD compared to 467 TUSD for 3Q10.
- The remaining part of the pre-paid royalty received from Funcom's partner for sale of *Age of Conan* in Korea, has been recognized as revenue in 4Q10 due to low expectations on ongoing royalty. This constituted 1,346 TUSD of revenue in 4Q.
- Funcom has reviewed all of its assets relevant for impairment testing. This process has led to recognition of an impairment loss of around 3,1 MUSD for *Age of Conan* due to a decrease in numbers of subscribers for the game. The process also led to a reversal of part of the previously recognized impairment loss for *The Secret World*, amounting to around 4,2 MUSD. The net present value of the game has increased. It is one year closer to launch and the Company has used a lower

discount rate as risk is reduced due to the developments made on the game, more positive feedback on the game concept from external parties and with the publishing agreement with EA in place.

- In 4Q10 the Company established a 10 MUSD loan facility with its largest shareholder Stelt Holding N.V. The coupon rate is 8 % and the loan matures after 3 years. In connection with the loan Stelt Holding N.V. was granted 5 million warrants to subscribe for shares in the Company at an exercise price of NOK 10 per share.
- At year end 2010 the equity ratio was 76 %, and the Company had 22,693 TUSD in cash.

LARGE SCALE MMOs

The Secret World

- Funcom has signed a co-publishing agreement with EA for *The Secret World*. The partners will cooperate on the marketing, sales and PR for the game. EA will be responsible for the distribution of the physical boxed product in all key markets. Funcom will sell the game in digital form from its websites. Under the terms of the agreement, EA will also make significant contributions to the marketing campaign of the game. The deal terms are broadly similar to those of previous publishing agreements signed by the Company.
- The development of *The Secret World*, progressed well during 4Q. 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 content implementation and on expanding and iterating on the role-playing game systems.
- Funcom will be present at the Game Developers Conference in San Francisco during March 1-4 and will at this event reveal a broad set of features, locations and game play for *The Secret World*, all captured in-game.

Age of Conan

- The development team of *Age of Conan* is now completely located in Montreal, benefiting from tax credits for development in Montreal.
- During 4Q the game revenues of *Age of Conan* declined, but the revenues have stabilized during 1Q. The game is cash flow positive and will remain so in the future.
- In March, the Company expects to make a very significant upgrade to the game engine of *Age of Conan*, boosting the visuals and game play experience of the game.
- The company is continuing its focus on increasing the revenue per customer for the game.

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.
- During 1Q, important improvements were made to the technology, in particular focused on features that enable the company to more efficiently develop MMOs in several locations simultaneously.

Market update

- The online games market continues to remain attractive, particularly the social games segment. Cityville, the latest game from developer and publisher Zynga, grew to an unprecedented 100 million users in 1 month from launch, illustrating the mass-market appeal of these games and the size of the market. On the back of its latest successes in this space, Zynga, received a valuation of 7-9 billion USD. Investor interest in the market remains high.
- World of Warcraft remains the dominant game in the large scale MMO market in the Western World, and reported more than 12 million subscribers worldwide in 3Q 2010. Cataclysm, the latest expansion pack of the game, sold 5 million copies during its launch month, setting a sales record for PC sales.
- Rift, a MMO developed and published by Trion, is set to launch in March, and is receiving positive press and gamer feedback.
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FREE-TO-PLAY MMOs

- 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 and focus in the social games space. Funcom views the fashion setting as very promising for these types of concepts and Fashion Week is in Funcom's opinion one of the strongest global brands in this segment.
- Funcom published *Bloodline Champions (BLC)* in January, with pre-order launch in December. The game is a focused player-vs-player online role playing game. The game has received very positive review and feedback and has established a significant player base. More than 370,000 players have so far signed up for the game. The game is a free-to-play game where players can access extra content and features through micro transactions in the game or through buying online packages.

- Funcom has entered into the monetization-testing phase of the beta testing with *Pets vs Monsters*. The Company considers the early monetization tests to be encouraging. The Company will continue improving and enhancing the registration-, installation-, and payment processes of the game. Significant marketing will commence when goals on conversion percentages and stickiness have been met.
- The Company also has two social media games in beta testing phase at the moment and expects to start monetization testing with these game concepts shortly.

MISCELLANEOUS

Transactions with related parties

There have been no significant transactions with related parties in 2010 except for the loan from Stelt Holding N.V. and the issuance of warrants to Stelt Holding N.V. as mentioned above.

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 company is currently making large investments into the high-end MMO game segment, with its upcoming game *The Secret World*, and into free-to-play and social games market with its Fashion Week initiative etc. The Company expects a major positive break point in revenue at the launch of *The Secret World*. The Company further considers the *Fashion Week* initiative to have a high likelihood of success in the social games space. The *Fashion Week* initiative is expected to generate revenues and profits for the Company starting fall 2011.
- Non-branded social games and free-to-play MMOs also have high revenue and profit potential, but are also less predictable and for those products the Company takes a portfolio approach in assessing the revenue potential.
- The revenues for 1Q11 are expected to be lower than the revenues for 4Q10 due to lower revenues from *Age of Conan* in the Western and Korean markets and the one-off revenues recognized in 4Q. However, the revenue estimate for coming quarters is more uncertain than previously, due to the revenue estimates for the Company's free-to-play MMOs.

Zürich, 25 February, 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.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. - FOURTH QUARTER FINANCIALS OF 2010
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Fourth quarter		Accumulated	
	2010	2009	2010	2009
<i>(Figures in TUSD)</i>				
Revenue	5 126	4 316	20 062	23 876
Operating expenses	-4 360	-4 218	-17 461	-19 751
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	766	98	2 601	4 125
Depreciation, amortization and impairment charges	-65	-1 080	-3 194	-14 923
Total operating expenses	-4 425	-5 298	-20 655	-34 674
Operating result ("EBIT") from continuing operations	701	-982	-593	-10 798
Share of result from equity-accounted entities	81	0	81	0
Net financial items	-1	972	587	2 718
Profit (loss) before income taxes from continuing operations	782	-10	75	-8 080
Income taxes	28	-76	-53	-406
Profit (loss) from continuing operations	810	-86	23	-8 486
Profit from discontinued operation, net of tax	0	0	0	0
Profit (loss) for the period	810	-86	23	-8 486
Attributable to non-controlling interests	0	0	0	0
Attributable to shareholders of Funcom N.V.	810	-86	23	-8 486
Earnings per share basic (USD)	0,02	0,00	0,00	-0,16
Earnings per share fully diluted (USD)	0,02	0,00	0,00	-0,16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	810	-86	23	-8 486
Foreign exchange translation difference	102	-814	-603	2 700
Other	0	60	242	60
Total comprehensive income for the period	911	-840	-339	-5 726
Attributable to non-controlling interests	0	0	0	0
Attributable to shareholders of Funcom N.V.	911	-840	-339	-5 726

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 Dec.	
	2010	2009
<i>(Figures in TUSD)</i>		
ASSETS		
<u>Non-current assets</u>		
Deferred tax assets	329	300
Intangible assets	41 693	30 848
Tangible fixed assets	1 509	886
Financial investments	956	508
<u>Current assets</u>		
Trade receivables	1 225	1 239
Prepayments and other receivables	2 178	638
Cash and cash equivalents	22 693	30 948
Total assets	70 582	65 368
EQUITY AND LIABILITIES		
<u>Equity</u>		
Share capital	2 742	2 719
Reserves	124 323	123 227
Retained earnings	-73 260	-72 576
<u>Liabilities</u>		
Deferred tax liabilities	10	50
Long-term liabilities	9 906	
Short-term liabilities	6 860	11 948
Total equity and liabilities	70 582	65 368

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Fourth quarter		Period ended 31. Dec.	
	2010	2009	2010	2009
<i>(Figures in TUSD)</i>				
Cash flow from operating activities	1 899	2 153	-1 088	7 849
Cash flow from investing activities	-3 849	-4 627	-15 670	-17 090
Cash flow from financing activities	10 006	-425	9 404	-2 187
Change in cash and cash equivalents	8 055	-2 898	-7 355	-11 428
Cash and cash equivalents, beginning of period	15 559	34 818	30 948	39 396
Effect of exchange rate fluctuations	-921	-972	-900	2 980
Cash and cash equivalents, end of period	22 693	30 948	22 693	30 948

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	31 Dec.	
	2010	2009
<i>(Figures in TUSD)</i>		
Opening balance	53 370	58 353
Total comprehensive income for the period	-339	-5 726
Equity issues	191	0
Changes in non-controlling interests	0	0
Other	584	743
Closing balance	53 806	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 twelve months ended 31 December, 2010 were approved for issue by the Supervisory Board on 25 February, 2011.

2 Basis for preparation and selected significant accounting policies

The unaudited interim condensed consolidated financial statements for the Company for the twelve months ended 31 December, 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.

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 3,1 MUSD and 9,3 MUSD on the game Age of Conan was made in 4Q10 and 3Q09 respectively 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.

In 4Q10 the previously recognized impairment loss for The Secret World has been partially reversed by 4,2 MUSD. The net present value of the game has increased as it is one year less to launch, compared to last year's impairment test. Also the Company has used a lower discount rate as risk is reduced with further development made, more positive feedback on the game concept from external parties and with a publishing agreement with Electronic Arts in place.

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.

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 mUSD loan granted from Funcom's largest shareholder Stelt Holding N.V., a company controlled by Supervisory Board member Hans Peter Jebesen. In connection with the grant of the loan, Stelt Holding N.V. was granted 5 mill. 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 year end 2010.

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

	Fourth quarter		Twelve months		Full year
	2010	2009	2010	2009	2009
Average number of shares (1000)	53 255	52 832	53 065	52 832	52 832

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 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 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Large-scale MMO's	19 773	23 787	9 240	12 952
Free-to-play MMO games	289		-324	
Unallocated		89		89
Total	20 062	23 876	8 917	13 041
General and administrative expenses			-6 315	-8 916
Depreciation, amortization and impairment charges			-3 194	-14 923
Net financial items			668	2 718
Profit (loss) before tax (from continuing operations)			75	-8 080

*) 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 December 2010	37 688	3 677

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