



**3Q-2011**

## HIGHLIGHTS

- The launch month of *The Secret World* was in 3Q set to April 2012 by the Co-publishing partners Funcom and EA.
- The Company has conducted a range of PR-activities for *The Secret World* during 3Q, including numerous convention events and journalist hands-on events, significantly increasing awareness and expectations for the title.
- Funcom announced that more than 500,000 players have signed up for participation in the beta-programs for *The Secret World*, signaling very significant interest for the game.
- The development of *The Secret World* progressed well during 3Q and an ever-larger share of the game is being completed.
- Due to the positive development of *The Secret World*, Funcom has decided to strengthen its cash base mainly to maximize the potential of the game. Funcom will raise USD 10-15 million through a convertible loan. The Company has secured commitment for a minimum of USD 7.5 million and has significant positive interest for the remaining part. Funcom and its advisors consider the conditions of the convertible loan already committed to be favorable for the Company.
- *Age of Conan - Unchained*, Funcom's hybrid free-to-play version of the game was launched on 1 July. The launch resulted in a significant increase in revenues from the game, as reported earlier.
- The development of *Fashion Week Live*, the Company's upcoming Facebook game, in partnership with IMG and 505 Games, is proceeding well. The game will soft-launch during 4Q11, with a significant marketing push following shortly thereafter.
- Revenues in 3Q11 increased by 55 % from 2Q to 4,766 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) were -716 TUSD.

## FINANCIALS 3Q 2011

- Revenues in 3Q11 were 4,766 TUSD, compared to 3,081 TUSD in 2Q11.
- EBITDA was -716 TUSD in 3Q11 compared to -2,060 TUSD for 2Q11.
- Operating profit (EBIT) was -2,155 TUSD for 3Q11 compared to -3,471 TUSD for 2Q11.
- Profit for the period was -3,169 TUSD compared to -2,967 TUSD for 2Q11.
- By end 3Q11 the equity ratio was 72 %, and the Company had 8,740 TUSD in cash.

## LARGE SCALE MMOs

### *The Secret World (TSW)*

- The launch month for *The Secret World* was set to April 2012.
- Funcom launched a broader beta-sign-up program during 3Q and more than 500,000 gamers have so far signed up for the beta-program participation.
- Funcom has conducted a range of PR activities during 3Q and so far in 4Q. These include participation at GC in Cologne, participations at EA events in London, New York, San Francisco, Paris and Cologne, as well as a strong presence at Comicon and PAX and hands-on-events in Funcom's offices. At most of these events the Company has demoed TSW live. In addition the Company has released numerous in-game videos and other material from the game. These activities have resulted in higher awareness and expectations for the game. As a result of these activities, there is also a new width and depth of game information available to investors and gamers.
- The development of *The Secret World* progressed well during 3Q and so far in 4Q. The focus of the game development is currently on completing and polishing content, adding the last features, as well as iterating on game systems. In addition, the Company works on performance optimization of technology and content.
- The Company considers the technical risks 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 3.0* game engine, the next version of the game engine that powers *Age of Conan*.
- In the 2Q report, Funcom presented different scenarios for TSW. Funcom still believes the target scenario, and the additional data on projected operational costs included in this report, presents a realistic outcome. Please see the Quarterly Presentation for 3Q for more details.

### *Age of Conan*

- Funcom launched a hybrid business model for *Age of Conan* on 1 July. The new business model combines elements from free-to-play and subscription models. The launch resulted in a significant increase in revenues from June to July, as well as large increase in the number of players in the game. More than 600,000 new gamers have tested the new free-to-play *Age of Conan* since 1 July.

- Funcom released an Adventure Pack for *Age of Conan* during 3Q and experienced solid uptake among the player base.
- The focus of the development of *Age of Conan* going forward will be on adding new content for the player base and keep adding new features to extend gameplay and strengthen player retention.
- *Age of Conan* was strongly cash flow positive in 3Q and is expected to remain cash flow positive going forward.

#### FREE-TO-PLAY MMOs

- The development of *Fashion Week Live* progressed well in 3Q. Together with its partners, IMG and 505 Games, Funcom plans to soft-launch *Fashion Week Live* during 4Q11 and expects significant marketing push for the concept during early 2012.
- *Bloodline Champions* remained cash flow positive in 3Q. After a downturn in activity and revenues in late summer and early fall, the game has in the last couple of weeks seen an increase in revenues through new marketing initiatives and continued improvements to the game.
- After successful marketing tests of *Pets vs Monsters* in Scandinavia, the Company has initiated some international marketing efforts to test selected markets.

#### MISCELLANEOUS

##### Transactions with related parties

Refer to note 9 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 25 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 and reiterates its target financial scenario from the 2Q report.

- The medium term financial performance of Funcom is influenced by a number of factors. The reception of the new game concepts to be launched during 1H12 is considered the most significant. Funcom is currently making large investments into new games, primarily *Fashion Week Live* and *The Secret World*, and expects negative cash flow until the launch of these game concepts.
- Funcom expects revenues for 4Q to be lower than revenues for 3Q due to an expected decrease in revenues from *Age of Conan* compared to 3Q; which was the launch quarter for the new business model with the in-game item shop.
- Funcom will raise USD 10-15 million through a convertible loan as described above. The additional funding will enable the Company to:
  - i) further increase the amount of PR and marketing spent on TSW before launch and also directly after launch
  - ii) start the development of the new high-end MMO game to follow TSW
  - iii) increase the Company's cash reserve in general

Zürich, 10 November, 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.theseecretworld.com](http://www.theseecretworld.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. - THIRD QUARTER FINANCIALS OF 2011  
PRELIMINARY, NOT AUDITED, FIGURES

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	Third Quarter		Accumulated		Full Year
	2011	2010	2011	2010	2010
<i>(Figures in TUSD)</i>					
Revenue	4 766	5 498	11 236	14 936	20 062
Operating expenses	-5 482	-4 570	-15 128	-13 101	-17 461
<b>Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)</b>	<b>-716</b>	<b>928</b>	<b>-3 893</b>	<b>1 836</b>	<b>2 601</b>
Depreciation, amortization and impairment charges	-1 439	-1 111	-4 230	-3 130	-3 194
Total operating expenses	-6 921	-5 681	-19 358	-16 231	-20 655
<b>Operating result ("EBIT") from continuing operations</b>	<b>-2 155</b>	<b>-183</b>	<b>-8 123</b>	<b>-1 294</b>	<b>-593</b>
Share of result from equity-accounted entities	-23	0	-17	0	81
Net financial items	-963	669	-2 031	588	587
Profit (loss) before income taxes from continuing operations	-3 141	486	-10 171	-706	75
Income taxes	-28	-19	-28	-81	-53
<b>Profit (loss) from continuing operations</b>	<b>-3 169</b>	<b>467</b>	<b>-10 199</b>	<b>-787</b>	<b>23</b>
Profit from discontinued operation, net of tax	0	0	0	0	0
<b>Profit (loss) for the period</b>	<b>-3 169</b>	<b>467</b>	<b>-10 199</b>	<b>-787</b>	<b>23</b>
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-3 169	467	-10 199	-787	23
Earnings per share basic (USD)	-0,06	0,01	-0,19	-0,01	0,00
Earnings per share fully diluted (USD)	-0,06	0,01	-0,19	-0,01	0,00

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Profit (loss) for the period	-3 169	467	-10 199	-787	23
Foreign exchange translation difference	209	235	732	-705	-603
Other	0			242	242
<b>Total comprehensive income for the period</b>	<b>-2 960</b>	<b>701</b>	<b>-9 467</b>	<b>-1 250</b>	<b>-339</b>
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-2 960	701	-9 467	-1 250	-339

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	30 Sep		31 Dec.	
	2011	2010	2010	2010
<i>(Figures in TUSD)</i>				
<b>ASSETS</b>				
<u>Non-current assets</u>				
Deferred tax assets			324	279
Intangible assets			48 796	38 313
Tangible fixed assets			1 653	1 052
Financial investments			966	813
<u>Current assets</u>				
Trade receivables			1 228	1 355
Prepayments and other receivables			3 827	1 878
Cash and cash equivalents			8 740	15 559
<b>Total assets</b>			<b>65 534</b>	<b>59 249</b>
<b>EQUITY AND LIABILITIES</b>				
<u>Equity</u>				
Share capital			2 762	2 737
Reserves			126 549	124 095
Retained earnings			-82 316	-74 170
<u>Liabilities</u>				
Deferred tax liabilities			10	27
Long-term liabilities			9 208	9 906
Short-term liabilities			9 321	6 561
<b>Total equity and liabilities</b>			<b>65 534</b>	<b>59 249</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Third Quarter		Period ended 30 Sep.		Full Year
	2011	2010	2011	2010	2010
<i>(Figures in TUSD)</i>					
Cash flow from operating activities	114	-2 161	-4 079	-2 987	-1 088
Cash flow from investing activities	-5 982	-3 452	-12 021	-11 821	-15 670
Cash flow from financing activities	1 582		3 263	-602	9 404
Change in cash and cash equivalents	-4 286	-5 613	-12 837	-15 410	-7 355
Cash and cash equivalents, beginning of period	12 892	19 236	22 693	30 948	30 948
Effect of exchange rate fluctuations	134	1 936	-1 116	20	-900
<b>Cash and cash equivalents, end of period</b>	<b>8 740</b>	<b>15 559</b>	<b>8 740</b>	<b>15 559</b>	<b>22 693</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	30 Sep		Full Year	
	2011	2010	2010	2010
<i>(Figures in TUSD)</i>				
Opening balance	53 806	53 370	53 370	53 370
Total comprehensive income for the period	-9 467	-1 250	-339	-339
Equity issues	295	185	191	191
Reclassification of warrants from liabilities to equity	1 850	0	0	0
Share-based payments	512	355	584	584
<b>Closing balance</b>	<b>46 996</b>	<b>52 661</b>	<b>53 806</b>	<b>53 806</b>

## 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 2011 were approved for issue by the Supervisory Board on 10 November 2011.

### 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 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, 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 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 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. 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.

### **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.

Total interest-bearing debt amounts to appr. 14,000 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 expectedly large proportion of future operating expenses arising in NOK and CAD.

### **11 Average numbers of shares**

	Third quarter		Nine months		Full year
	2011	2010	2011	2010	2010
Average number of shares (1000)	53 626	53 188	53 504	53 030	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

	Revenue from external customers January-September		Segment profit (loss) *) January-September	
	2011	2010	2011	2010
Large-scale MMO's	9,913	14,740	2,224	6,741
Free-to-play MMO games	1,322	196	213	-198
Unallocated				
<b>Total</b>	<b>11,236</b>	<b>14,936</b>	<b>2,437</b>	<b>6,543</b>
General and administrative expenses			-6,330	-4,707
Depreciation, amortization and impairment charges			-4,230	-3,130
Net financial items			-2,048	588
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-10,171</b>	<b>-706</b>

	Revenue from external customers July-Sept		Segment profit (loss) *) July-Sept	
	2011	2010	2011	2010
Large-scale MMO's	4,548	5,497	1,680	2,672
Free-to-play MMO games	217		3	-339
Unallocated				
<b>Total</b>	<b>4,766</b>	<b>5,497</b>	<b>1,683</b>	<b>2,333</b>
General and administrative expenses			-2,400	-1,404
Depreciation, amortization and impairment charges			-1,439	-1,112
Net financial items			-986	669
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-3,142</b>	<b>486</b>

\*) 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 September 2011	43,717	4,634

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