



**3Q-2012**

## HIGHLIGHTS

- Full commercial launch of *The Secret World* took place 3 July.
- Revenues in 3Q 2012 were 10,963 TUSD compared to 4,766 TUSD for 3Q 2011.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 3Q 2012 were positive with 2,634 TUSD compared to -716 TUSD for 3Q 2011.
- Earnings before Interest and Tax (EBIT) for 3Q 2012 were positive with 213 TUSD compared to -2,155 TUSD for 3Q 2011.
- Cash flow from operating activities for 3Q 2012 was positive with 2,750 TUSD. Cash position at end 3Q 2012 amounts to 17,643 TUSD. In 4Q the Company has on maturity repaid interest-bearing borrowings amounting to approximately 6,000 TUSD.
- The billing for *The Secret World* for the previous month (October) amounted to approximately 1,100 TUSD. As part of the process of optimizing the revenue for the game, the Company is currently working on updating and refining the business model.
- Due to lower sales of *The Secret World* than expected, the Company initiated significant cost-cut measures. Amongst other factors, such as the development of a LEGO game, based on the Minifigures line, the goal of bringing the Company cash flow positive may not be achieved during 2013.
- The LEGO project reached its first milestone with a fully workable client after only 6 weeks of production time.
- On 22 October the Company announced it had retained ABG Sundal Collier and GP Bullhound to undertake a broad review of the strategic options available, which now is in process. Funcom will update the market on the development of these processes when relevant.

## FINANCIALS

- Revenues in 3Q12 were 10,963 TUSD, compared to 4,766 TUSD in 3Q11.
- EBITDA, positively impacted by the launch revenues from *The Secret World* was 2,634 TUSD in 3Q12 compared to -716 TUSD for 3Q11.
- Operating profit (EBIT), also positively impacted by the launch revenues from *The Secret World* was 213 TUSD for 3Q12 compared to -2,155 TUSD for 3Q11.
- Result for the period was -449 TUSD compared to -3,169 TUSD for 3Q11.

- Cash flow from operating activities for 3Q 2012 was positive with 2,750 TUSD. Cash position at end 3Q 2012 amounts to 17,643 TUSD. In 4Q the Company has on maturity repaid interest-bearing borrowings amounting to approximately 6,000 TUSD.

## LARGE SCALE MMOs

### *The Secret World*

- The Company has released four major game updates for the game since launch, adding more content and features to the game.
- A refined and updated business model has been under development in 3Q.
- The refined and updated business model will include new and increased PR and marketing initiatives.
- Guild Wars 2 and Mists of Pandaria, the latest expansion pack to World of Warcraft, have dominated the market for the last months, thus impacting sales of *The Secret World*. World of Warcraft is continuing to hold a strong position in the market in spite of the increased competition.

### Other large scale MMO's

- Player numbers and revenues from *Age of Conan* and *Anarchy Online* were fairly stable in 3Q, seeing some additional decline after the launch of Guild Wars 2 and Mists of Pandaria.
- The focus of the development of these games are to add new features and content for the player base to extend player engagement time.
- Universal and Conan Inc announced a new movie, «The Legend of Conan», to star Arnold Schwarzenegger with a target release date in summer 2014
- All games in the large scale MMO segment are cash flow positive and will remain so in the foreseeable future.

## FREE-TO-PLAY MMOs

- The Company has established a strong team to build the LEGO online game, working towards the second milestone next month.
- Funcom has signed a letter of intent with a major gaming company for a license involving a strong brand, fitting very well with the strategy for the Company going forward.
- The Company is working actively on securing other similar opportunities.

- *Fashion Week Live* continued to sign more brands to be part of the game. The current focus for further development of the game continues to be acquisition, retention and monetization.

## 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*. The financial performance of new games and refined business models is uncertain.

### Outlook

- Funcom's strategy is to direct its resources towards smaller, more focused online games.
- With the proprietary *Dreamworld* technology platform the company has some of the best tools and expertise available to build and launch these games on time and on budget.

- 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.
- The Company expects revenues for 4Q 2012 to be lower than in 3Q 2012 due to lower sales 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, 22 November 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](http://www.funcom.com)
- For more information about *The Secret World* game, please see [www.thesecretworld.com](http://www.thesecretworld.com)
- For more information about the *Age of Conan* game, please see [www.ageofconan.com](http://www.ageofconan.com)
- For more information about the *Anarchy Online* game, please see [www.anarchy-online.com](http://www.anarchy-online.com)
- For more information about *Fashion Week Live*, please see [www.fashionweeklive.com](http://www.fashionweeklive.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)

FUNCOM N.V. - THIRD QUARTER FINANCIALS OF 2012  
PRELIMINARY, NOT AUDITED, FIGURES

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

<i>(Figures in TUSD)</i>	Third Quarter		Accumulated		Full Year
	2012	2011	2012	2011	2011
Revenue	10 963	4 766	15 813	11 236	15 519
Operating expenses	-8 329	-5 482	-27 541	-15 128	-21 002
<b>Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)</b>	<b>2 634</b>	<b>-716</b>	<b>-11 728</b>	<b>-3 893</b>	<b>-5 482</b>
Depreciation, amortization and impairment charges	-2 420	-1 439	-41 412	-4 230	-7 829
Total operating expenses	-10 749	-6 921	-68 953	-19 358	-28 831
<b>Operating result ("EBIT") from continuing operations</b>	<b>213</b>	<b>-2 155</b>	<b>-53 140</b>	<b>-8 123</b>	<b>-13 312</b>
Share of result from equity-accounted entities	130	-23	97	-17	-17
Net financial items	-771	-963	-2 428	-2 031	-2 882
Profit (loss) before income taxes from continuing operations	-428	-3 141	-55 471	-10 171	-16 210
Income taxes	-21	-28	-312	-28	-85
<b>Profit (loss) from continuing operations</b>	<b>-449</b>	<b>-3 169</b>	<b>-55 782</b>	<b>-10 199</b>	<b>-16 295</b>
Profit from discontinued operation, net of tax	0	0	0	0	0
<b>Profit (loss) for the period</b>	<b>-449</b>	<b>-3 169</b>	<b>-55 782</b>	<b>-10 199</b>	<b>-16 295</b>
Attributable to shareholders of Funcom N.V.	-449	-3 169	-55 782	-10 199	-16 295
Earnings per share basic (USD)	-0,01	-0,06	-0,90	-0,19	-0,30
Earnings per share fully diluted (USD)	-0,01	-0,06	-0,90	-0,19	-0,30

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Profit (loss) for the period	-449	-3 169	-55 782	-10 199	-16 295
Foreign exchange translation difference	-32	209	92	732	520
Other	6	0	6		13
<b>Total comprehensive income for the period</b>	<b>-474</b>	<b>-2 960</b>	<b>-55 684</b>	<b>-9 467</b>	<b>-15 762</b>
Attributable to non-controlling interests	0	0	0	0	0
Attributable to shareholders of Funcom N.V.	-474	-2 960	-55 684	-9 467	-15 762

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<i>(Figures in TUSD)</i>	30 Sept		31 Dec.
	2012	2011	2011
<b>ASSETS</b>			
<i>Non-current assets</i>			
Deferred tax assets		362	324
Intangible assets		19 293	48 796
Tangible fixed assets		1 839	1 653
Financial investments		1 066	966
<i>Current assets</i>			
Trade receivables		1 665	1 228
Prepayments and other assets		5 935	3 827
Cash and cash equivalents		17 643	8 740
<b>Total assets</b>		<b>47 802</b>	<b>65 534</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
Share capital		3 424	2 762
Reserves		147 389	129 549
Retained earnings		-143 279	-82 316
<i>Liabilities</i>			
Deferred tax liabilities		299	10
Long-term liabilities		14 380	9 208
Deferred revenue		10 044	1 815
Short-term loans and borrowings		9 168	4 475
Other short term liabilities		6 377	3 030
<b>Total equity and liabilities</b>		<b>47 802</b>	<b>65 534</b>

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(Figures in TUSD)</i>	Third Quarter		Period ended 30 Sept.		Full Year
	2012	2011	2012	2011	2011
Cash flow from operating activities					
Profit (loss) before income tax	-1 020	-3 141	-55 256	-10 171	-16 210
Adjustments for:					
Depreciation, amortization and impairment	2 420	1 439	41 412	4 230	7 829
Share-based payments	185	145	567	512	703
Share of result from equity-accounted entities	-131	23	-97	17	17
Effect of exchange rate fluctuations	-473	871	-122	876	359
Changes in working capital	1 769	778	10 406	458	916
<b>Net cash from operating activities</b>	<b>2 750</b>	<b>115</b>	<b>-3 090</b>	<b>-4 079</b>	<b>-6 386</b>
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-3 691	-5 976	-12 168	-12 065	-18 361
Investment in/loan to (from) equity-accounted entities	1	-6	-216	44	110
<b>Net cash from investing activities</b>	<b>-3 690</b>	<b>-5 982</b>	<b>-12 383</b>	<b>-12 021</b>	<b>-18 251</b>
Cash flow from financing activities					
Net proceeds from issue of share capital	100	13	10 953	295	480
Proceeds / repayments from (of) borrowings and leases	271	1 568	1 776	2 967	21 162
<b>Net cash from financing activities</b>	<b>371</b>	<b>1 581</b>	<b>12 730</b>	<b>3 263</b>	<b>21 643</b>
Change in cash and cash equivalents	-569	-4 286	-2 744	-12 837	-2 995
Cash and cash equivalents, beginning of period	16 928	12 892	19 428	22 693	22 693
Effect of exchange rate fluctuations	1 284	134	959	-1 116	-270
<b>Cash and cash equivalents, end of period</b>	<b>17 643</b>	<b>8 740</b>	<b>17 643</b>	<b>8 740</b>	<b>19 428</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<i>(Figures in TUSD)</i>	30 Sept		Full Year
	2012	2011	2011
Opening balance	42 918	53 806	53 806
Total comprehensive income for the period	-55 684	-9 467	-15 762
Equity issues	20 813	295	480
Reclassification of warrants from liabilities to equity		1 850	1 850
Conversion rights reserve	-1 080		1 840
Share-based payments	567	512	703
Closing balance	7 534	46 996	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 nine months ended 30 September 2012 were approved for issue by the Supervisory Board on 22 November 2012.

### 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 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 games operating cost 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 the 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 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 13 % (2011: 13%).

### **6 Net financial items**

Net financial items mainly consist of interest earned, exchange rate differences, 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 9,749 TUSD interest-bearing loan from Stelt Holding N.V., 4,519 TUSD convertible bonds and 112 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 have been converted into 6,423,296 common shares by the end of 3Q12 which resulted in an increase of 336 TUSD of the share capital and 9,543 TUSD of the share premium reserve and a decrease of 1,080 TUSD of the conversion rights reserve, reflected in the consolidated statement of changes in equity.

The carrying value of interest-bearing debt at the end of 3Q12 amounts to approximately 23,106 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 2,500 TUSD with a Canadian bank for the use of one of the credit facilities with a fair market value of 6,100 TUSD.

## 11 Average numbers of shares

	Third quarter		Nine months		Full year
	2012	2011	2012	2011	2011
Average number of shares (1000)	66 396	53 626	61 884	53 504	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 January - Sept.		Segment profit (loss) *) January - Sept.	
	30 Sept. 2012	30 Sept. 2011	30 Sept. 2012	30 Sept. 2011
	Large-scale MMO's	15 024	9 913	3 469
Free-to-play MMO games	788	1 322	59	213
<b>Total</b>	<b>15 813</b>	<b>11 236</b>	<b>3 528</b>	<b>2 437</b>
General and administrative expenses			-15 257	-6 330
Depreciation, amortization and impairment charges			-41 412	-4 230
Share of result from equity-accounted entities			97	-17
Net financial items			-2 428	-2 031
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-55 471</b>	<b>-10 171</b>

	Revenue from external customers July - Sept.		Segment profit (loss) *) July - Sept.	
	2012	2011	2012	2011
	Large-scale MMO's	10 640	4 548	5 849
Free-to-play MMO games	322	217	-119	3
<b>Total</b>	<b>10 962</b>	<b>4 766</b>	<b>5 730</b>	<b>1 683</b>
General and administrative expenses			-3 097	-2 400
Depreciation, amortization and impairment charges			-2 420	-1 439
Share of result from equity-accounted entities			130	-23
Net financial items			-771	-962
<b>Profit (loss) before tax (from continuing operations)</b>			<b>-428</b>	<b>-3 141</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 30 Sept. 2011	43 717	4 634
Segment assets as at 30 Sept. 2012	17 305	1 782

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

## 13. Subsequent events

On 1 October 2012, Funcom repaid in full a bank loan of 6,000 TUSD. As a result the Company is no longer required to maintain the bank deposit of 2,500 TUSD disclosed in note 10.