



4Q-2011

HIGHLIGHTS

- The launch of Funcom's next large scale MMO, *The Secret World*, was rescheduled from April to June 19th, to allow for more polish of the game. Most of the features and content of the game have now been implemented and most of the capacity of the development team is focusing on polish, game play iterations and beta-testing.
- Funcom arranged several extensive hands-on press events for *The Secret World* in North America and Europe, leading to extensive coverage in the gaming press. Funcom also conducted extensive beta tests during 4Q 2011 and 1Q 2012. Funcom considers the feedback from the press events and beta tests to be positive and encouraging for the prospects of the game.
- The community for *The Secret World* grew further, and more than 750,000 gamers have so far signed up for the beta testing programs of the game.
- *Fashion Week Live*, Funcom's Facebook initiative, in partnership with 505 Games and IMG, is in the beta-testing phase and is expected to launch shortly.
- Funcom decided in 4Q to strengthen its cash base, primarily for maximizing the potential of *The Secret World* and raised USD 15 million through a convertible loan.
- Revenues in 4Q11 were 4,284 TUSD and Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) were -1,589 TUSD.

FINANCIALS 4Q 2011

- Funcom raised 15 mUSD by issuing 150 convertible bonds with a face value of 100,000 USD. The Bonds are convertible into common shares of the Company and have an annual coupon of 10.00 percent payable semi-annually. The initial conversion price is USD 1.37, and is subject to customary adjustment provisions. The Bonds will, unless previously redeemed, converted or purchased and cancelled, mature on 22 December 2014.
- Revenues in 4Q11 were 4,284 TUSD, compared to 4,766 TUSD in 3Q11.
- EBITDA was -1,589 TUSD in 4Q11 compared to -716 TUSD for 3Q11.
- Operating profit (EBIT) was -5,189 TUSD for 4Q11 compared to -2,155 TUSD for 3Q11.
- Funcom has recognized an impairment charge of 2,121 TUSD in the statement of comprehensive income in 4Q within the Free-to-Play segment. See note 5 for further details.
- Profit for the period was -6,096 TUSD compared to -3,169 TUSD for 3Q11.
- By end 4Q11 the equity ratio was 55 %, and the Company had 19,428 TUSD in cash.

LARGE SCALE MMOs

The Secret World (TSW)

- The development of *The Secret World* progressed well during 4Q 2011 and 1Q 2012. Most features and content have now been completed and is being polished and iterated over. Funcom decided to extend the development time of the product by 8 weeks, to allow for more work on polishing the product. The new launch date has been set to June 19, 2012.
- Extensive press-events and beta-programs have been conducted for *The Secret World*. Funcom considers the feedback from press and gamers to be positive and encouraging. *The Secret World* gets positive feedback on several aspects such as combat, role-playing-systems, content quality and variation, immersion, story and setting. Comments on improvement areas have focused on improving the accessibility and presentation of the new RPG-system, on easing the difficulty level of the game and on polish. Almost 9 out of 10 of the beta testers that have responded to beta-surveys say they are likely to play the game at launch.
- The community of *The Secret World* grew nicely through 4Q11 and 1Q12, and more than 750,000 players are now signed up for the beta testing programs of *The Secret World*.
- In the 2Q report, Funcom presented different financial scenarios for TSW. Funcom re-iterates the target scenario for *The Secret World*.
- In the upcoming months, Funcom will further build gamer awareness and expectations for *The Secret World* through press hands-on events, participations at GDC and PAX, extensive public beta-events with media partners, pre-order programs etc. Significant new coverage and information from the game is expected from these activities.

Age of Conan

- Player numbers and revenues of *Age of Conan* were affected negatively by the launch of a major competitor in 4Q. However, revenues and player numbers now seem to have stabilized.
- *Age of Conan* is cash flow positive and will remain so in the foreseeable future.
- The focus of the development of the game is to add new features and content for the player base to extend player engagement time.

FREE-TO-PLAY MMOs

- The development of *Fashion Week Live* progressed well in 4Q. The product is currently in the beta testing phase of development. This phase has been extended some primarily due to partnership coordination and approval process. Together with

its partners, IMG and 505 Games, Funcom plans to launch the product shortly, in coordination with advertising partners and other partners.

- *Bloodline Champions* remained cash flow positive in 4Q.
- *Pets vs Monsters* is currently being beta tested with larger marketing channels to measure and improve player to customer conversion numbers. The game has received significant updates lately, both in terms of content and new features, leading to more player engagement and extended customer life-time.

MISCELLANEOUS

Transactions with related parties

There have been no 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. For evaluations of the risks related to the launch of *The Secret World*, Funcom encourages investors to seek information about the industry in general and Funcom in specific from analyst reports, industry reports, game pre-views etc.

Outlook

- 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 game concepts, primarily *Fashion Week Live* and *The Secret World*, and expects negative cash flow until the launch of these game concepts.

- The Company considers its financial resources to be sufficient to complete and launch both *Fashion Week Live* and *The Secret World*.
- Funcom expects revenues for 1Q12 to be lower than revenues for 4Q11 due to an expected decrease in revenues from *Age of Conan*.

Badhoevedorp, The Netherlands, 27 February 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 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. - FOURTH QUARTER FINANCIALS OF 2011
PRELIMINARY, NOT AUDITED, FIGURES

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

<i>(Figures in TUSD)</i>	Fourth Quarter		Accumulated	
	2011	2010	2011	2010
Revenue	4 284	5 126	15 519	20 062
Operating expenses	-5 873	-4 360	-21 002	-17 461
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	-1 589	766	-5 482	2 601
Depreciation, amortization and impairment charges	-3 600	-65	-7 829	-3 194
Total operating expenses	-9 473	-4 425	-28 831	-20 655
Operating result ("EBIT") from continuing operations	-5 189	701	-13 312	-593
Share of result from equity-accounted entities	-23	81	-17	81
Net financial items	-827	-1	-2 882	587
Profit (loss) before income taxes from continuing operations	-6 039	782	-16 210	75
Income taxes	-57	28	-85	-53
Profit (loss) from continuing operations	-6 096	810	-16 295	23
Profit from discontinued operation, net of tax	0	0	0	0
Profit (loss) for the period	-6 096	810	-16 295	23
Attributable to non-controlling interests	0	0	0	0
Attributable to shareholders of Funcom N.V.	-6 096	810	-16 295	23
Earnings per share basic (USD)	-0,11	0,02	-0,30	0,00
Earnings per share fully diluted (USD)	-0,11	0,02	-0,30	0,00

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit (loss) for the period	-6 096	810	-16 295	23
Foreign exchange translation difference	-212	102	520	-603
Other	13		13	242
Total comprehensive income for the period	-6 294	911	-15 762	-339
Attributable to non-controlling interests	0	0	0	0
Attributable to shareholders of Funcom N.V.	-6 294	911	-15 762	-339

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(Figures in TUSD)</i>	31 Dec	
	2011	2010
ASSETS		
<u>Non-current assets</u>		
Deferred tax assets	558	329
Intangible assets	49 879	41 693
Tangible fixed assets	2 016	1 509
Financial investments	921	956
<u>Current assets</u>		
Trade receivables	1 353	1 225
Prepayments and other receivables	4 173	2 178
Cash and cash equivalents	19 428	22 693
Total assets	78 327	70 582
EQUITY AND LIABILITIES		
<u>Equity</u>		
Share capital	2 777	2 742
Reserves	129 552	123 934
Retained earnings	-89 411	-72 871
<u>Liabilities</u>		
Deferred tax liabilities	297	10
Long-term liabilities	22 104	9 906
Short-term liabilities	13 008	6 860
Total equity and liabilities	78 327	70 582

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Figures in TUSD)</i>	Fourth Quarter		Period ended 31 Dec.	
	2011	2010	2011	2010
Cash flow from operating activities	-2 307	1 899	-6 386	-1 088
Cash flow from investing activities	-6 230	-3 849	-18 251	-15 670
Cash flow from financing activities	18 380	10 006	21 643	9 404
Change in cash and cash equivalents	9 843	8 055	-2 994	-7 355
Cash and cash equivalents, beginning of period	8 740	15 559	22 693	30 948
Effect of exchange rate fluctuations	846	-921	-270	-900
Cash and cash equivalents, end of period	19 428	22 693	19 428	22 693

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<i>(Figures in TUSD)</i>	31 Dec	
	2011	2010
Opening balance	53 806	53 370
Total comprehensive income for the period	-15 762	-339
Equity issues	480	191
Reclassification of warrants from liabilities to equity	1 850	0
Equity component on convertible bonds	1 840	0
Share-based payments	703	584
Closing balance	42 918	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 twelve months ended 31 December 2011 were approved for issue by the Supervisory Board on 27 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 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.

In 4Q11 Funcom recognized an impairment loss of 2,121 TUSD in the statement of comprehensive income on certain games within the Free-to-Play segment to reduce the book value of the games in the statement of financial position to its recoverable amount. In particular, the impairment loss relates to Pets vs. Monsters (1 mUSD), one game that will not be completed and two other games that have been taken out of operation and thus no longer generate revenues. Pets vs. Monsters has mainly been impaired due to revised revenue projections.

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 9,326 TUSD interest-bearing loan from Stelt Holding N.V., 12,572 TUSD convertible bonds and 205 TUSD non-interest bearing reimbursable government contribution.

As per the loan agreement 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.

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 will be subsequently measured at amortized cost.

The carrying value of interest-bearing debt at year end 2011 amounts to appr. 28,542 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.

As of 31 December 2011 Funcom held 15,000 TUSD restricted cash received in exchange for the convertible bonds (please, refer to note 9). The restricted cash has been included in the line item Cash and cash equivalents and included in cash from financing activities in the Statement of Cash Flows. The cash has in 2012 been released for use following the EGM held on 12 January 2012 when the convertible bonds loan agreement was approved.

11 Average numbers of shares

	Fourth quarter		Twelve months		Full year
	2011	2010	2011	2010	2010
Average number of shares (1000)	53 734	53 255	53 561	53 065	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 Period ended		Segment profit (loss) *) Period ended	
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
Large-scale MMO's	13 813	19 773	2 242	9 240
Free-to-play MMO games	1 706	289	1 074	-324
Unallocated				
Total	15 519	20 062	3 316	8 917
General and administrative expenses			-8 798	-6 315
Depreciation, amortization and impairment charges			-7 829	-3 194
Net financial items			-2 899	668
Profit (loss) before tax (from continuing operations)			-16 210	75

	Revenue from external customers Oct - Dec		Segment profit (loss) *) Oct - Dec	
	2011	2010	2011	2010
Large-scale MMO's	3 900	5 033	20	2 499
Free-to-play MMO games	384	93	861	-124
Unallocated				
Total	4 284	5 126	881	2 375
General and administrative expenses			-2 470	-1 608
Depreciation, amortization and impairment charges			-3 600	-65
Net financial items			-850	80
Profit (loss) before tax (from continuing operations)			-6 039	782

*) 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 31 December 2011	46 417	2 963

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