



Q3-2005

FUNCOM N.V. – THIRD QUARTER AND FIRST NINE MONTHS OF 2005

Highlights

- *Age of Conan* was announced in March and has now reached Alpha stage
- *Age of Conan* awarded “Best Game of Show” in the MMO genre at E3
- Strong growth in *Age of Conan* community and continued positive press coverage
- Successful and innovative launch of in-game advertising in *Anarchy Online*
- Key distribution agreements signed in Europe on *Dreamfall*
- Establishment of sales- and development office in Beijing, China
- Strong growth in the overall massive multiplayer online (MMO) market
- Increased ownership in subsidiary Plutolife to 62.5%

Financials

The company's financials during the first nine months of 2005 have developed as planned. Financial focus in 2005 has been to secure funding for the company's new portfolio. Investments into *Age of Conan* and *Dreamfall* have been substantial. *Dreamfall* and *Age of Conan* are expected to be launched in H1/2006 and Q4/2006, respectively.

For the first nine months of 2005 Funcom had revenues of 3,265 TUSD, compared to 4,476 in the similar period in 2004. The company had an operating profit (EBIT) of -1,057 TUSD, compared to 1,220 in 2004. The revenue development is anticipated, as *Anarchy Online* matures, and the free service combined with advertisement revenues reduces revenue per user compared to the monthly subscription model. Furthermore, the third quarter in 2004 which is used for comparison was positively affected by the launch of *Alien Invasion* (expansion pack on *Anarchy Online*).

Due to the investments in new games, Funcom has had a negative cash development in the period. Funcom raised capital in a directed share offering towards Nordic Venture Partners in H1/2005, and the cash (& equivalents) balance at the end of the first nine months was 4,562 TUSD.

For the first nine months the main source of revenues for Funcom was subscription income from the massive multiplayer online (MMO) game *Anarchy Online*. Revenues from mobile games & services sold through

its Plutolife subsidiary will be consolidated from Oct. 2005.

Company & Market

Funcom has grown from 104 employees at the start of the year to 134 employees (excl Plutolife) at the end of the third quarter. In the third quarter, the company opened a sales and development office in Beijing, China as a first step in establishing a foundation for its Asian presence.

During the first nine months the online gaming market, and particularly the MMO segment, has shown strong growth, with several of the key industry players proving the attractive potential of the MMO segment.

The overall development of Funcom's key products is progressing according to plan, and a number of key milestones have been reached during the first nine months of 2005

- Substantial progress has been made in *Age of Conan*. The game has received a number of highly favourable reviews, and reached alpha stage in the third quarter. *Age of Conan* now has an active community, and a number of the leading online game sites already rank the game as one of the most anticipated MMO's in the industry.
- *Dreamfall*, the follow-up to Funcom's *The Longest Journey* has reached a late development stage, and has also received numerous outstanding reviews, among others from the E3 exhibition.
- Player figures have been stable for *Anarchy Online* despite its mature age. Also launched in-game advertising including streaming in-game video advertising to supplement subscription revenues.

Funcom has initiated development of a new MMO game under the working title *The World*. In addition, the company has developed an extensive group of new SMS and WAP based games & community products within its mobile portfolio. Funcom also entered key distribution agreements on *Dreamfall* in Europe and the USA.

Outlook

Until new games are launched in 2006, the company anticipates a flat or slightly declining revenue development. The company will continue to invest into new games, and expects a continued negative cash flow until these games are launched.

The Funcom Group

Torleif Ahlsand, Chairman of the Board

Trond Arne Aas, CEO

FUNCOM N.V – FINANCIALS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2005

PROFIT AND LOSS ACCOUNT <i>(Figures in TUSD)</i>	Third quarter		Accumulated		Full Year
	2005	2004	2005	2004	2004
Revenues, PC/Desktop	1,111	1,725	3,265	4,476	5,705
Total Operating Revenues*	1,111	1,725	3,265	4,476	5,705
Cost of goods sold	144	359	498	749	990
Operating expenses	1,151	678	3,191	1,875	2,912
Depreciation and amortization	188	323	633	632	856
Total operating expenses	1,484	1,359	4,322	3,255	4,759
Earnings Before Interest and Tax ("EBIT")	-373	366	-1,057	1,220	946
Net financial items	129	-39	132	46	214
Earnings Before Tax ("EBT")	-244	327	-925	1,267	1,161
Taxes	9	3	26	9	12
Earnings After Tax ("EAT")	-253	324	-951	1,258	1,149
Earnings per share	(0.20)	0.35	(0.89)	1.54	1.36
Earnings per share fully diluted	(0.20)	0.35	(0.87)	1.54	1.36

BALANCE SHEET <i>(Figures in TUSD)</i>	30-Sep		31-Dec
	2005	2004	2004
ASSETS			
Other intangible assets	8,749	3,329	4,511
Tangible assets	432	472	463
Goodwill	1,118		
Investment in associate		171	463
Trade debtors	435	496	380
Other receivables			1,500
Prepayments & other receivables	492	399	578
Cash and cash equivalents	4,562	3,648	2,920
Total assets	15,789	8,516	10,815
LIABILITIES & EQUITY			
Paid in capital	49,816	42,673	44,287
Retained earnings	-37,934	-36,975	-37,200
Short-term liabilities	3,907	2,817	3,728
Total liabilities & equity	15,789	8,516	10,815

CASH FLOW STATEMENT <i>(Figures in TUSD)</i>	Accumulated		Full year
	2005	2004	2004
Cash flow from operating activities	-61	2,136	1,581
Cash flow from investment activities	-5,485	-2,972	-4,644
Cash flow from financing activities	7,189	4,097	5,596
Change in cash and cash equivalents	1,642	3,261	2,532
Cash and cash equivalent, beginning of period	2,920	387	387
Cash and cash equivalent, end of period	4,562	3,648	2,920

EQUITY <i>(Figures in TUSD)</i>	Accumulated		Full year
	2005	2004	2004
Opening balance	7,087	-4,682	-4,682
Net profit/loss	-951	1,258	1,149
Equity issues	5,689	9,097	10,596
Other	57	25	24
Closing balance	11,882	5,698	7,087

PROFORMA INTERIM RESULTS** <i>(Figures in TUSD)</i>	Q3	Q4	Q1	Q2	Q3
	2004	2004	2005	2005	2005
Revenues, PC/Desktop	1,725	1,229	1,100	1,055	1,111
Revenues, Mobile	569	588	587	638	612
Total operating revenues	2,295	1,818	1,687	1,692	1,723
EBIT	376	-54	-381	-317	-243
Sales growth quarter by quarter (%)		-21%	-7%	0%	2%
Pre-tax earnings per share (NOK)	0.41	(0.06)	(0.37)	(0.26)	(0.20)
Pre-tax earnings per share (NOK) fully diluted	0.41	(0.06)	(0.37)	(0.26)	(0.19)

The company's interim report, both 2004 and 2005, is presented in accordance with IFRS / IAS 34

* Mobile portfolio (through Plutolife) will be consolidated from Oct 01

** Mobile portfolio (through Plutolife) is presented as fully consolidated