FRONTIER DEVELOPMENTS PLC

ANNUAL REPORT AND ACCOUNTS 2014

FRONTIER IS LEADING THE GAMES INDUSTRY IN ITS TRANSITION TO THE WORLD'S PREMIERE FORM OF ENTERTAINMENT

We have a proven track record of progressive development in video games spanning several decades of rapid technological change. Our projects cross a wide variety of genres and platforms and are linked by an underlying drive for innovation, timely delivery and above all, quality.

HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

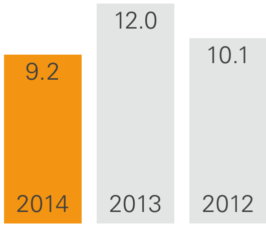
- We successfully raised £4.7 million to assist the funding of our transition plan from our IPO and pre-IPO activity in the year, bringing the total raised to £5.8 million before associated costs since May 2013.
- In anticipation of improved returns beginning in the subsequent financial year we began a transition towards increasing our proportion of self-published revenue by investing £4.1 million in the development and promotion of *Elite: Dangerous* and associated COBRA technology, which caused an expected and temporary operating loss of £1.7 million.
- Cash raised from self-published games and pre-orders of *Elite: Dangerous* represented 13% of cash received from revenue. Deferred income stood at £2.5 million at the year end (2013: £1.3 million).
- The proportion of non-publisher work recognised increased to 19% from 6%.
- We diversified our publisher revenue by starting two contracts for a new global publishing partner in the year, each of which were based on original IP created by Frontier.

Read more in our Strategic Report on **pages 5 to 13**

UNDERLYING REVENUE* (£m)

£9.2m

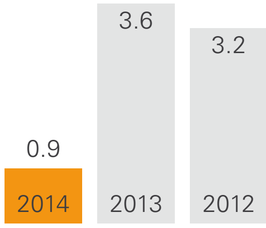
− 23.3%



ADJUSTED EBITDA* (£m)

£0.9m

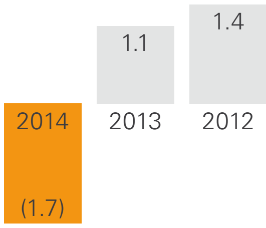
− 75.0%



OPERATING RESULT (£m)

£(1.7)m

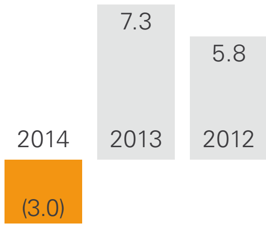
− 270.0%



ADJUSTED (LPS)/EPS** (p)

(3.0)p

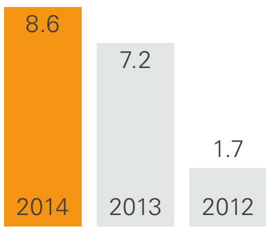
− 141.0%



GROSS CASH BALANCES (£m)

£8.6m

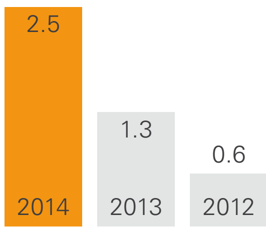
+ 19.4%



DEFERRED INCOME (£m)

£2.5m

+ 92.3%



* See page 10 for reconciliation to reported revenue and operating result on income statement

** See note 26

Find out more online at **www.frontier.co.uk**

OUR BUSINESS

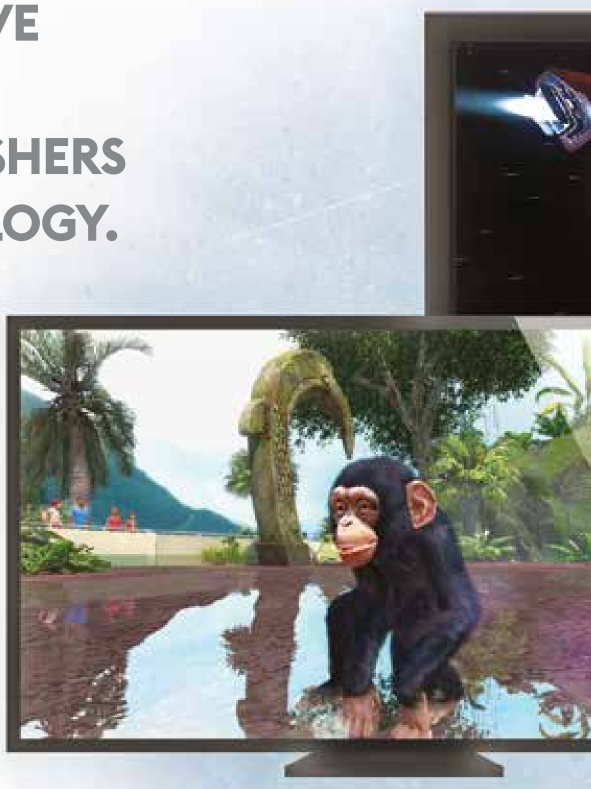
WE PRODUCE HIGH QUALITY, INNOVATIVE INTERACTIVE VIDEO GAMES FOR BOTH OURSELVES AND MAJOR GLOBAL PUBLISHERS USING OUR IN-HOUSE COBRA TECHNOLOGY.

All of our games are developed using our COBRA proprietary cross-platform technology along with industry standard software packages, allowing code and resources developed on PC to be compiled and run on all leading gaming platforms whilst offering the ability to take advantage of each platform's unique capabilities.

245
Number of staff (up 8%)

20+
Established for over 20 years in the video games industry

55+
games developed using COBRA technology



OUR GAMES

We have a reputation for developing high quality, innovative titles in a variety of game genres for a variety of platforms. We also have consistently excelled at creating compelling experiences using new technology, whether it be *LostWinds* and *Kinectimals* for the motion control of Wii and Kinect (and, in the case of *LostWinds*, touch screen devices), *Zoo Tycoon* for Xbox One, or now virtual reality, 3D and ultra high resolution displays with *Elite: Dangerous*.

OUR TECHNOLOGY PLATFORM

COBRA is our proprietary game development technology platform and has undergone continual development since 1988. It allows us to deliver industry-leading gameplay innovations and take advantage of efficient multi-platform development.

COBRA also has a sophisticated framework that enables rapid development of powerful tools. These tools offer the ability for all those on the development team including artists, animators, sound designers, musicians, modellers and producers to view, tweak and review changes to the resources of all types in-game on the target device, in a live game session that is running on that platform, without the intervention of a programmer. Such iteration is one of the keys to developing high quality games.

Most recently, we have added significant online capability to COBRA. This facilitates extensive analytic features such as play through tracking, sophisticated A-B tests, player segmentation and friends lists as well as the usual leaderboard and achievement functionality, and is based on commodity cloud-based servers.

INVESTED

£4.1 million in *Elite: Dangerous* and associated COBRA technology

IMPROVED

Balance of revenue mix: self-published titles represent 13% of cash received (up from 8%)

INCREASED

The number of global publishing partners we work with

OUR EVOLUTION

With a talented team of developers and experienced managers we have successfully navigated three exciting decades of rapidly changing technology environment for mass-market gaming platforms.

We are now transitioning from being primarily a developer of video games for major external publishers into a business that leverages its proven skills via an increasing proportion of self-published projects alongside those published by major publishers and the further development and exploitation of its proprietary enabling technology.

To facilitate this evolution we are investing in our own games titles and building out key elements of a digital publishing organisation such as marketing and e-commerce.

Read more about our evolution in the Strategic Report starting on **page 5**

OUR GROWING PUBLISHING CAPABILITY

To maximise our returns from self-publishing *Elite: Dangerous* and future titles we are growing an efficient digital publishing capability.

We are building a team to manage e-commerce, web development, event management, customer support, PR, community management and worldwide promotion.

Adding an effective publishing capability to our world-class game development organisation will allow Frontier to successfully promote its products to consumers in the global digital marketplace.

INCUBATING NEW IP

We have a well-established process for incubating new game IP that has already served us very well by creating a successful franchise with 8 million customers (*LostWinds*) which was awarded 'Best New IP' at the 2008 Develop Industry Excellence awards; enabling two significant as-yet-unannounced projects that are currently being developed in conjunction with a major global publishing partner; and contributing to several other projects over the years.

This process allows anyone in the Company to propose a new game idea, have it peer reviewed and ultimately take part in the development team should it proceed to production.

We already have a strong fund of ideas, and we expect to be able to use some of the best of these and new ideas in future to continue to generate compelling new IP releases for the Company. We find that the fact of such an incubation process helps to maximise people's engagement with the Company's projects.

CHAIRMAN'S STATEMENT

"We are making good progress in our transition into a business which develops and licenses technology to support games for major external publishers, other developers and our own self-published games."

It has been an important year for Frontier, as we have successfully started to execute our transition from primarily being a world-class developer of video games for major external publishers into a business with an increased focus both on self-published projects and ongoing development and exploitation of our proprietary technology platform, COBRA. We have made good progress in the transition of Frontier, evidenced by the high levels of investment we have made in both *Elite: Dangerous* and also our COBRA technology platform. While carrying this out, we have continued to work with many of our valued customers for whom we create games. Two of the games we are now in the process of building for a new global publisher have come from our internally run 'game of the week' programme where any member of staff with a good game idea can come forward and show it. I would like to take this opportunity to thank all our hardworking people who have contributed their creativity, effort and productivity to our business.

At the start of the financial year we floated on AIM, raising £4.0 million. This was preceded by a £2.8 million pre-IPO fundraising commenced in May 2013, which combined provides us with the financial means to complete the transition of Frontier and capitalise on the exciting growth opportunities ahead. David Braben sold a block of shares which were bought by both new institutions and institutional shareholders. Subsequently we acquired David's 10% rights to *Elite: Dangerous* owned by a partnership controlled by David Braben via a share exchange. We are very appreciative of the support from all our shareholders as we continue the transition of Frontier, confident it will generate long-term sustainable value.

In the year ending 31 May 2015 we are looking forward to the delivery of three games developed for blue-chip publishers. We will also launch the PC version of *Elite: Dangerous* during the fourth quarter of calendar year 2014. The development of the game has been materially helped by the feedback and reactions of our enthusiastic, knowledgeable and critical Alpha, premium Beta and Beta backers. When I wrote last year's statement we had 35,138 backers. As at the end of August that figure has risen to approximately 100,000 partaking in *Elite: Dangerous*' development. I take this opportunity to thank all our backers.

In future years, starting with 2015, we will see the harvest of the seeds we have sown. Frontier is much more than just a developer of a well known space game franchise. We will continue to very selectively develop games for globally significant third parties – particularly if the ideas have been home grown. We have a number of games we are considering for future franchises that build on our Company's renowned expertise. Finally we are continuing and will continue to invest in our technology platform, COBRA.

All these activities are made possible by the various stakeholders who work for and with Frontier. I end by thanking them again for their skill, aptitude and endeavour.

David Gammon
Chairman
3 September 2014

CHIEF EXECUTIVE'S INTRODUCTION TO THE STRATEGIC REPORT

"We started the current financial year as we expected and are now executing the transition of our business to its next stage. I believe that the continued delivery of our plan will result in greater opportunity and returns."

Our investment programme in self-published titles and associated technology will benefit and facilitate better and more cost-effective results for our games. The high graphical quality and very efficient development we achieved with *Zoo Tycoon* and the high quality of and positive early response to *Elite: Dangerous* are both great demonstrations of this.

Elite: Dangerous will be sold directly to customers through our own e-commerce platform and through third parties. Indeed the Alpha, Premium Beta and Beta have already been made through this channel, as is various supporting merchandise for this game. At the end of August we had received approximately £6 million from our backers.

We are in a transitional period and we have so far not issued financial guidance on the business. Revenues from publishers are generally paid during development, whereas with self-funded titles, even though the expected total revenue is greater, it generally does not come until close to or after the release of the title. Taking the novel approach of going for crowd-funding and then paid Alpha and Beta phases has reduced this gap, but inevitably has resulted in a dip in revenue during the financial year we are reporting. The exact timing of this income will critically affect the revenue that falls into each accounting period, hence we feel the lack of guidance is reasonable.

As we continue to build up the size and number of franchises we would expect this critical dependence on the timing to become less of an issue and put us in a position to reduce the range of possible outcomes.

We started the current financial year as we expected and are now executing the transition of our business to its next stage. Overall, despite the expected reduction in headline revenue and EBITDA over the transition, I believe that the continued delivery of our plan will result in much greater opportunity and returns, which we are already beginning to see since the end of this financial year.

David Braben O.B.E.
Founder and CEO
3 September 2014

HOW WE OPERATE

FRONTIER WAS INCORPORATED IN JANUARY 1994 – OUR REPUTATION FOR INNOVATION AND QUALITY IN THE RAPIDLY CHANGING VIDEO GAME INDUSTRY HAS BEEN EARNED AND SUSTAINED FOR OVER 20 YEARS.

OUR STRENGTHS

TECHNOLOGY

Industry-leading multi-platform development technology
Proprietary COBRA technology powers innovative, efficient, cross-platform software development spanning personal computers, tablets, smartphone and video game consoles and a wide variety of game genres.

Significant IP portfolio
The Group's IP catalogue includes valuable properties including the exclusive rights to create sequels in the *Elite* franchise and distribution rights for *Roller Coaster Tycoon 3.*

MANAGEMENT

Highly experienced and respected management
The Group's management team, led by David Braben, has successfully implemented its technology strategy and delivered an industry-leading games development capability which has led to the current opportunity.

Proven track record
Frontier has a track record of successfully exploiting its software technology in games over a period spanning three decades.

RELATIONSHIPS

Blue-chip international client base
The Group has established relationships with the key industry players, *e.g. Microsoft, Nintendo, Apple, Amazon and Sony.*

PEOPLE

Frontier's most valuable resources are the skills, motivation and teamwork of our people.
We place a great emphasis on a meritocratic environment with good career progression. As at 31 August 2014 the Group had 270 employees; 90% were in development roles, 6% in project support and 4% in administration support.

OUR STRATEGY

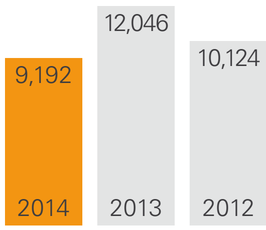
We strive to make games that will put Frontier and the games industry itself at the forefront of the world entertainment industry.

We are leveraging our resources and strengths – including our skills as game creators, our game creation technology and our reputation and relationships – to increase the proportion of self-published revenue and deliver innovative, high quality games to a wide audience via our own and others' distribution channels. This is being achieved through talented people and exceptional teamwork, and will allow us to retain and attract top talent in all areas of the Company.

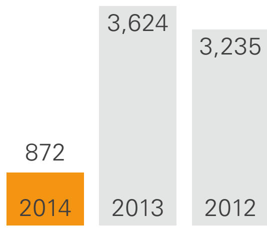
By delivering innovative, high quality games to a wide audience we will maximise their contribution to our finances and increase shareholder value.

KEY PERFORMANCE INDICATORS

MEASURE OF GROWTH: ADJUSTED (UNDERLYING) REVENUE*
(£'000)

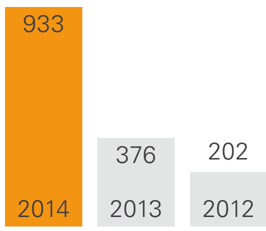


MEASURE OF PROFITABILITY: ADJUSTED EBITDA*
(£'000)

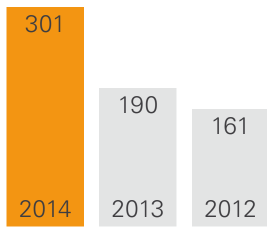


* See page 10 for reconciliation to income statement

INVESTMENT IN SELF-PUBLISHING
(£'000)



INVESTMENT IN TECHNOLOGY
(£'000)



DIVERSIFYING REVENUE STREAMS

% of revenue by segment	2014	2013	2012
Publishing	81%	94%	95%
Self-published	5%	4%	2%
Royalties and other income	14%	2%	3%

BUSINESS REVIEW

"The board believes the Group to be well placed to emerge from its transition period as a stronger and better balanced business."

Further COBRA technology developments

We completed the adaption of our COBRA software technology to work with Nintendo's WiiU and Google's Android smartphone and tablet OS, which continues to extend our coverage of the major gaming devices. *Coaster Crazy* was the game used to drive the port, and this game was subsequently released on Nintendo's WiiU and Amazon's Kindle tablets (which run an Android variant called FireOS) under the name *Coaster Crazy Deluxe*. This new Deluxe variant was also released on Apple's iOS.

This was a noteworthy achievement as *Coaster Crazy* makes heavy use of COBRA's own physics system, and delivering the required high mathematical precision in a consistent manner is a significant undertaking on such different processing devices. Each of the three versions of the game also used the same COBRA server system running on our commodity servers. This enabled players from the Nintendo, Amazon (Android) and Apple ecosystems to share data between players within the same game, providing another proof point of the cross-ecosystem abilities of COBRA.

We also extended COBRA's networking capabilities to support the Microsoft Xbox One *Zoo Tycoon* project, allowing co-operative play where one player can edit a zoo, even while another player's game character is standing in the zoo, watching it happen.

Elite: Dangerous

Alpha process

Development of the self-published *Elite: Dangerous* title continued during the year, which included the successful start and completion of the 'Alpha' section of the process. The process was designed to front-load the key development risks in order to minimise the overall risk on the project. Hence 'Alpha' was split into four phases, each one addressing an important development risk:

The 'Alpha 1' phase covered the key requirement of moment-to-moment gameplay fun, by providing a single-player combat test – whereby the player flew missions against computer controlled/simulated opponents – which used several novel mechanics including heat-based gameplay. It was vital that this 'moment-to-moment' gameplay was satisfying and worked reliably, as otherwise the game would not be compelling. It also included support for Oculus Rift – a prototype virtual reality headset display system made by a new crowd-funded company that was subsequently purchased by Facebook for $2 billion. 'Alpha 1' also supported stereoscopic 3D TVs and the TrackIR head-tracking system.

The 'Alpha 2' phase added a test version of online multi-player play. This introduced and proved significant new code systems both on the game client and server using a novel hybrid server-based peer to peer system, now supported by COBRA. *Elite: Dangerous* was already known to work well on a local area network (LAN) in office conditions, but having such a multi-player system operate successfully in the non-optimal 'real-world' conditions of the global internet with network quality and performance distinctly variable across different players' machines and different countries was a significantly greater achievement.

The 'Alpha 3' phase introduced an embryonic true 'game loop' to the game including docking in a star port, a second playable ship to buy with in-game money and a choice of weapons and other systems with which to outfit the ships. This meant that players could use in-game money their missions earned them to upgrade their ships.

The 'Alpha 4' phase introduced three further major pillars of the game: trading, travel and a simulation of the 400 billion star systems of the Milky Way galaxy. Trading provides an online server-based simulation of the economies of a number of star systems. Players are faced with a commodity market and try to buy a cargo-hold full of goods at a favourable price in one system and haul it safely to another system in anticipation of selling at a profit. The *Elite: Dangerous* trading system implements a dynamic model of the economies of many different star systems and allows each player trade to influence the price of the traded commodity using supply and demand rules – in this way every trade influences the experience of every other player. Two faster-than-light travel mechanics, super-cruise for travel within a star system and hyperspace travel between systems, were also given their debut. Travel was restricted to five star systems, but Alpha 4 contained an accurate simulation of the whole Milky Way galaxy that is built from observed astronomical data of over 150,000 star systems and procedural generation of the rest of the galaxy, which will eventually be opened up to players for travel too.

Each 'Alpha' release was well received, with commentators remarking on the unusually high quality of each release for an early access product, and the major step forward taken by each. *Elite: Dangerous* is also well-positioned with advanced consumer technologies such as ultra high definition/4K and virtual reality displays. We have continued to actively engage with our player community to a very high degree since the end of the 'Alpha' – in particular the super-cruise feature of the game was defined with substantial valuable assistance from the community. Such close dialogue and engagement will continue to the initial launch of the game and beyond.

Premium Beta starts
The Alpha phase ended on 30 May 2014, with the release of Premium Beta 1. The Alpha access price was £200 per player, Premium Beta £100 per player. Premium Beta 1 welcomed around 10,000 more players to the game, drawn from those who had backed at the appropriate level in the crowd-funding campaign and those who subsequently purchased early access, thus providing a further significant test of our network and server code.

Tie-in novels announced with Gollancz
We also announced a three-novel tie-in deal with the well known book publisher Gollancz (an imprint of the Orion Publishing Company) set in the world of *Elite: Dangerous*. Frontier received crowd-sourced funding for *Elite: Dangerous* via a successful campaign on the Kickstarter website, and Gollancz contributed three of the 22 book-related pledges, for over £13,000, to secure the rights to publish the three related books. All authors collaborated closely with Frontier to ensure continuity and reflect the evolving game world, which in turn aided the development of aspects of the game's fiction.

Elite sequel rights
On 6 May 2014 we acquired the assets of Professional Practice Automation LLP (PPA), a limited liability partnership in which David Braben is a controlling member, for £5.15 million through the allotment and issue to PPA, credited as fully paid, of 2,001,573 new ordinary 0.5 pence shares. The assets included the remaining franchise rights in respect of the *Elite* video game franchise. David Braben assigned these rights to the Company in June 2008 in return for a royalty based on Frontier's profits from the *Elite* video game franchise, the benefit of which was held by PPA.

Key industry partnerships
Zoo Tycoon
We continued our close working relationship with Microsoft by delivering an Xbox One launch title based on Microsoft's popular *Zoo Tycoon* franchise. This gave us early access to new console generation 64-bit processing hardware, and once again proved the benefits of our proprietary multi-platform COBRA technology, which facilitated a very efficient development and simultaneous delivery of both an Xbox One and an Xbox 360 version.

Contract extension
We also signed an agreement to undertake additional work under an existing development agreement with Microsoft.

The contract amendment has a value of US$1.75 million, bringing the total contract value to US$5.67 million. The additional amount will be earned and recognised over development milestones spanning the financial years ending 31 May 2014 and 31 May 2015. In the year to 31 May 2014 US$2.1 million of revenue was recognised.

Two contracts with a major new publisher partner
We also signed two new development agreements with a major new global publishing partner. Both games are as yet unannounced and are original new concepts generated through our company-wide 'game of the week' incubation programme. Under the contracts, Frontier will deliver two exclusive original games using its proprietary COBRA technology which will drive support for the partner's own hardware and technology ecosystem. The contracts have a combined value of £3.75 million, which will be earned and recognised over development milestones spanning the financial years ending 31 May 2014 and 31 May 2015. In the year to 31 May 2014 £1.8 million of revenue was recognised.

This new relationship further diversifies our revenue streams.

Rights from Atari
We announced a new relationship with Atari, whereby our e-commerce strategy is accelerated. We now have non-exclusive rights to distribute Atari games, as well as the rights to publish our *RollerCoaster Tycoon 3* game on new platforms.

Management and staff
Over the last 16 months we have added over 50 staff to our organisation at all levels. We have focused on building capacity in server/online development, marketing and publishing as well as game development. We work closely with a number of universities both in the UK and Canada including the offering of intern positions and project mentoring for second-year students.

Outlook
The Board believes the Group to be well placed to emerge from its transition period as a stronger and better-balanced business.

We are planning to launch *Elite: Dangerous* in the fourth calendar quarter of 2014. The current feedback to the game is such that we expect to continue with a planned development roadmap for further expansions to incrementally add major new features such as landing on planets and player-character based gameplay within and outside spaceships.

We will also start development on other projects to further build our revenue pipeline that make full use of our established expertise and pool of IP.

Deliveries of our contractual milestones to external publishers continue to be met.

Trading results
In the financial year ended 31 May 2014, Frontier Developments was undergoing a planned transitional period during which we only saw a 24% decline in underlying revenue to £9.2 million, adjusted EBITDA fell from £3.6 million to £0.9 million, we incurred an operating loss of £1.7 million versus an operating profit in the prior year of £1.1 million, and adjusted basic loss per share of 3.0 pence was set against adjusted earnings per share of 7.3 pence.

Group trading performance
The Group entered a planned transitional investment phase after its IPO to develop and launch *Elite: Dangerous* (expected Q4 calendar 2014), its first major large budget self-published title, and associated technology development.

BUSINESS REVIEW
CONTINUED

Revenue
Moving resources to *Elite: Dangerous* self-published work in progress had consequence of exchanging early revenue from publisher work for expected revenue from future sales, as a result there was a 24% reduction in underlying revenue after excluding subcontract costs recharged to customers at nil margin, reconciled as follows:

Underlying revenue £'000	2014	2013	%	2012
Headline revenue	9,541	12,072	(21%)	14,157
Subcontract pass through	(349)	(26)	1,242%	(4,033)
Underlying revenue	9,192	12,046	(24%)	10,124

We continued to recognise an element of revenue for *Elite: Dangerous* on release of 'Alpha' and 'Beta' phases from the early backers, and to receive new revenue by additional players paying to enter in the year. Our earlier *LostWinds* and *Coaster Crazy* iOS titles continued to sell. We released *Coaster Crazy Deluxe* versions on a number of platforms after using it as a test vehicle for COBRA platform coverage expansion and cross-platform data sharing via servers running COBRA code.

Publishing revenue was lower. We worked on five projects of varying sizes for our two key clients, and two of these games were released in the financial year 2013–14.

Royalty income was positively impacted by Atari Interactive Inc. (Atari) coming out of Chapter 11 in December 2013 and thus releasing an element of pre-petition funds (to January 2013) not recorded in the prior year. These income streams from Atari originate from our *Roller Coaster Tycoon 3* development and IP licence agreement. We received £0.6 million of royalty income from sales to 31 May 2014 of Kinect Disneyland Adventures post year end. This was our first royalty receipt from this title.

Revenue mix £'000	2014	2013	%	2012
Publishing	7,707	11,355	(32%)	13,499
Self-published	465	511	(9%)	323
Royalties	1,366	203	573%	335
Other	3	3	—	—
	9,541	12,072	(21%)	14,157

Gross margin and contribution
The overall gross margin slipped from 31% to 17%. This reduction stemmed from lower margins in the publication business and negative margins in the self-published business impacted by an impairment charge offsetting gains from higher royalty income, where gross margins received are in excess of 65%. Frontier took an impairment charge of £0.3 million on the *Coaster Crazy* franchise. The Group gained valuable experience and proved its technology with the game, but the monetisation level of the free-to-play game has not been as quick and successful as had been expected and subsequent versions were released later than planned. Additionally marketing spend is expensed within cost of sales – our publication and marketing function was established in the financial year 2014.

Profitability and adjusted EBITDA
Frontier is in a state of planned transition, following its listing of the Group's shares on AIM in July 2013. As a consequence the Board monitors performance on an adjusted EBITDA basis. The adjusting items were primarily share-based compensation, intangible asset impairment and funding costs associated with the IPO. It has also been decided to include fair value adjustments as a separate item.

As expected in our transitional period we incurred a significant temporary shift in profitability. Operating result was a loss of (£1.7 million) compared to an operating profit of £1.1 million. EBITDA was £0.3 million compared with £2.9 million in the prior year. Adjusted EBITDA reduced to £0.9 million from £3.6 million.

The reconciliation is as follows:

	2014 £'000	2013 £'000	%	2012 £'000
Operating result	(1,705)	1,052	(262%)	1,390
Depreciation	225	151		185
Amortisation and impairment	1,802	1,650		1,623
EBITDA	322	2,853	(89%)	3,198
Share-based compensation	286	416		—
Fair value adjustments	32	—		—
Gain on sale of investment	(21)	—		—
Funding costs/ listing expenses	217	308		—
Dilapidations provision	36	37		37
Canada set-up fees	—	10		—
EBITDA adjusted	872	3,624	(76%)	3,235

Finance income
Interest receivable from the Group's cash resources increased to £0.06 million from £0.02 million as a result of increased cash balances from the equity raise, but remains at low levels due to the current interest rate environment worldwide.

Income tax
The Group recorded a current tax charge in its Canada operation of £0.04 million plus a deferred tax liability of £0.07 million for tax due to the timing difference over which R&D tax relief and a local digital media tax rate operate. The parent company continues to hold unused tax losses of £6.7 million to set against future taxable profits generated in the UK.

Earnings per share
The basic loss for 2014 per share was (5.8) pence compared to earnings per share of 4.2 pence for 2013 based on a weighted average number of shares of 33.3 million (2013: 25.0 million).

On a diluted basis the loss per share is reported as the same amount at (5.8) pence compared to diluted earnings per share in the prior year of 4.1 pence based on a weighted average number of shares of 33.3 million (2013: 25.5 million).

The adjusted loss per share was (3.0) pence compared to the prior period's adjusted earnings per share of 5.8 pence.

Dividend

The Directors are not recommending the payment of a dividend (2013: £nil).

Intangible assets and research and development expenditure

Investment in our own IP capitalised in the year was up 136% in line with our transition plans at £4.0 million reflecting Frontier's commitment to a strategic software development programme in respect of *Elite: Dangerous* and our COBRA technology. Including the acquired rights the £8.3 million of self-published net book value is represented by the *Elite: Dangerous* title.

A good proportion of our investment is in research and development, representing £0.79 million (2013: £0.76 million) an increase of 4%. Research and development expensed was lower at £0.4 million from £0.6 million.

Share issues

A convertible loan was issued towards the end of the prior year granting shares at a discount of 15% to the IPO flotation price. The amount received in June 2014 was £1.6 million (2013: £1.1 million). Upon listing in July 2013 the convertibles converted into 2.5 million shares at £1.0795 per share. A further 0.1 million shares were issued pre-IPO in June 2013 at £0.95 per share.

3.2 million shares were issued under the IPO at £1.27 per share. The Company also issued 0.4 million of warrants as part of the process.

Employees converted 0.3 million share options into ordinary shares post-IPO up to the end of May 2014; exercise proceeds were £0.3 million. The Group granted 0.4 million share options in the year (2013: 1.6 million).

A further 2.0 million shares were issued as non-cash consideration for the purchase of the assets of Professional Practice Automation LLP, a limited liability partnership under the control of David Braben, in May 2014.

Non-current assets

Investment in intangibles was focused on developing self-published titles (mainly *Elite: Dangerous*, scheduled for release Q4 2014) and further multi-platform work on COBRA.

The Group maintained prudent amortisation rates to reflect the dynamic changing nature of the video games sector.

Current assets

Trade and other receivables increased by £0.9 million to £3.0 million mainly as a result of deferred royalty income due from Atari SA as part of the distribution agreement signed in October 2013 and Microsoft for Kinect Disneyland Adventures.

Investments held for sale include shares in Atari SA provided as part of the Chapter 11 creditor agreement for pre-petition balances; these were sold post year end.

Current liabilities

Trade and other payables decreased by £1.9 million to £1.2 million, £1.1 million was due to convertible loan notes being converted to equity. The Group's Canadian subsidiary received an interest-free loan from the federal-backed Atlantic Canada Opportunities Agency of £0.2 million.

Deferred income was £2.5 million (2013: £1.3 million in non-current liabilities). Deferred income constituted both crowd-funding 'pledges' and pre-orders on our e-commerce site expected to be delivered within one year for *Elite: Dangerous* and publication contract revenue, computed under revenue recognition rules.

Non-current liabilities

The Group fully offset UK deferred tax liabilities with deferred tax assets that were available. An overseas deferred tax liability of £0.1 million was provided against federal investment tax credits due. Prior year balances for deferred income were moved to current liabilities.

Cash and cashflow

The Group's operating cashflow was £0.3 million, driven by increase in deferred income for *Elite: Dangerous*. Share capital proceeds from pre-IPO and IPO raised £5.7 million. The Group invested £4.4 million in non-current assets. The Group incurred £0.3 million of unrealised foreign currency losses as it held currency balances in anticipation of increased worldwide marketing activity.

The overall impact was an increase of £1.8 million in cash and cash equivalents to £8.6 million, continuing to support the Group's investment and growth plan.

David Walsh
Chief Operating Officer

Neil Armstrong
Company Secretary and Chief Finance Officer
3 September 2014

PRINCIPAL RISKS AND UNCERTAINTIES

The Group faces competitive, strategic and financial risks that are inherent in a rapidly growing emerging market. The Executive team maintains the risk register and escalates the key risks for further consideration at full Board level on a regular basis.

The key business and finance risks for the Group are set out below:

Description	Mitigation	Status
Staff availability		
If the Group does not have the correct numbers of people with the correct skills available, the execution of its business plan will be compromised.	The Group continues to prioritise direct recruitment and outreach. We have visibility of our future needs via a regularly reviewed plan of record, and undertake analysis of potential bottlenecks. We seek to minimise days lost to sickness via healthcare benefits, general morale and wellbeing initiatives.	New
Staff retention		
Staff departures could create staff and key skill/ experience shortages and compromise the execution of the Group's business plan.	Whilst there will unavoidably be some level of staff turnover, the Group believes that its attractive project portfolio, talented staff and good quality leadership make Frontier a place where talented people want to build their careers. We use our business success to deliver benefits to our people, and the Group is in the middle of a three-year programme of improving incentives and leadership skills which is intended to further enhance its attractiveness as an employer.	New
Cybersecurity		
A breach of security could take many forms, and could significantly impair our self-publishing plans.	We review our security provisions regularly and believe them to be in accordance with industry best practices.	New
Strategic focus		
The Group is in the process of diversifying its business base to a balanced mix of technology, self-published and published-based revenue streams. Inherently in such a strategic shift of focus creates execution risk, whilst perhaps reducing financial risk based on a small customer base.	The Group is already seeing a shift in revenue balance as evidenced by its pre-orders of *Elite: Dangerous*. The Group remains confident that it can deliver on the product, technology, commercial and operational aspects that support this strategy.	
Liquidity		
Liquidity risk arises from the Group not being able to meet its obligations as they fall due, which would mean we are not able successfully to execute our business plan.	The Group seeks to manage this risk by ensuring sufficient liquidity is available to meet the foreseeable needs and to invest cash assets safely and profitably. The Group's policy throughout the year has been to place surplus funds on short-term treasury deposits based on its detailed cashflow forecasting. The Group prudently manages its liquidity needs by carefully monitoring forecast cash inflows and outflows both in the short and medium term. The group also has access to its £3 million revolving credit facility.	
Customer dependency		
The Group recognises that it is currently dependent on a small number of sources of revenue from publishing customers, and this has the potential to cause financial stress should these relationships break down.	The Group remains confident that it could undertake work for other publishing customers whilst it builds up a diversified revenue base if necessary. The Group has added another (as yet unannounced) major global publishing partner as a customer this financial year.	

Description	Mitigation	Status
Currency risk		
The Group's reporting currency is Pounds Sterling (GBP). Exposure to currency exchange rates arises where transactions are in a currency other than the functional currency of the entity, primarily US Dollars (USD), Canadian Dollars (CAD) and Euro (EUR).	Currency risk is managed by ensuring, where possible, that financial revenues and operating costs are denominated in GBP or, where subcontract costs have been recharged, they have been recharged in the same currency. The operating costs of the Canadian entity are matched to USD revenue flows where possible, as this exchange rate has been more stable than via GBP. The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk as the Group's currency transactions are not considered significant enough to warrant this. However, the Group does seek to maintain the same level of working capital in both its Canadian subsidiary and in the UK parent, measured in calendar months. As the Group expands its revenue sources the amount of revenue originating in non-GBP currencies will increase. The cost base of the Canadian operation might also become material. The Company currently holds contracts in USD which is seen as a natural hedge for the Canadian operational costs over the next two years. The currency exposure is monitored closely.	↑
Growth management		
The Group's future success will depend on its ability to manage anticipated expansion. This now includes the management of an overseas-based subsidiary and may include acquisitions. Such expansion is expected to place demands on management and support functions. If the Group is unable to manage its expansion effectively, its business and financial results could suffer.	In order to mitigate the risk, the Group is investing in suitable training for key staff and key internal systems. The Group continues to consult with our Non-Executive Directors to ensure these risks are managed objectively.	↓
Market disruption		
The Group operates in a fast moving industry where market trends or disruptive technology may emerge which reduce its ability to compete and execute its business plan.	Investing in its own COBRA technology and self-published games allows the Group to continue to innovate, and we believe our processes and business decisions are agile and well informed so we can anticipate and exploit such changes. We believe this risk is mitigated by our track record of execution on new platforms and the flexibility demonstrated by the diverse range of video games we have successfully developed in the past.	↓
Credit		
Credit risk is the risk that a third party might fail to fulfil its performance obligations under the terms of a financial instrument.	The Group's exposure is limited to the carrying value of financial assets and cash and cash equivalents recognised at the year end date (as summarised in notes 16 and 30). The Group's management considers all financial assets, not impaired, for each reporting date are of good credit quality, including those past due. In respect of trade and other receivables the Group is exposed to significant risk for two counterparties; however, given the identity of each and their financial performance, we believe the likelihood of such risk to be low.	↓
Interest rate sensitivity		
Interest rate risk is the current or prospective risk that earnings and/or capital are negatively affected by interest rate changes in the financial markets.	The Group's only current borrowing is interest free.	↓

Approved by the Board and signed on behalf of the Board

David Walsh
Chief Operations Officer
3 September 2014

Neil Armstrong
Company Secretary and Chief Finance Officer

DIRECTORS' BIOGRAPHIES

DAVID GAMMON

Non-Executive Chairman

Joined February 2012

David has widespread experience in developing and building technology based businesses. Since 2001, David has focused on finding, advising and investing in UK technology companies. David founded Rockspring, an advisory and investment firm, which focuses on early stage technology companies and where David continues as CEO today. Other current positions include non-executive directorship at Accesso Technologies plc, and he is Group Strategic Advisor to Marshall of Cambridge (Holdings) Limited.

Previous experience includes Non-Executive Director (NED) and advisor at artificial general intelligence company DeepMind Technologies Limited, advisor to Hawkwood Capital LLP, NED at real-time location technology specialist Ubisense Trading Limited, NED at internet TV specialist Amino Technologies plc, NED at smart metering and software company BGlobal plc and acting CFO at internet specialist Envisional Solutions Limited. Earlier in his career David worked as an investment banker for over 15 years.

Committees Audit, Remuneration, Nominations

DAVID BRABEN O.B.E.

Founder and CEO

Joined David was the founding shareholder of Frontier in January 1994

David was the founding shareholder of Frontier in January 1994 and is the co-author of *Elite*. David has over 30 years' experience in the gaming industry. David is also a founding trustee of the Raspberry Pi Foundation. David was formerly a NED at Phonetic Arts Limited, before it was acquired by Google in December 2010. David is a BAFTA games judge and is a Fellow of the Royal Academy of Engineering. In 2013 David won 'Technology Personality of the Year' at the UK tech awards (formerly techMARK) and was given an honorary doctorate from Abertay University in Dundee. In 2014 he was given an O.B.E. for services to the computer games industry and a further honorary doctorate from the Open University.

Committees Nominations

DAVID WALSH

Chief Operating Officer

Joined September 2001

David has over 25 years' experience of engineering and commercial management roles in high-growth technology companies. In 2001 David joined Frontier from ARM, the FTSE/NASDAQ listed microprocessor IP licensing company where he served for six years, helping to grow the company and, as Director of Software Systems, setting up a division of the company to facilitate adoption of the architecture in key target market segments. In 2012 David established and became President of Frontier Developments Inc., Frontier's wholly owned Canadian subsidiary, and he also serves as a board member of the Entertainment Software Association of Canada.

Committees Remuneration

JONNY WATTS
Chief Creative Officer

Joined November 1998

Jonny has over 26 years' experience in gaming. He joined the Company in 1998 from Sensible Software, and over the course of his career has been involved in all aspects of the creation of 23 published games such as *Sensible Soccer* and *Cannon Fodder*, along with Frontier's suite of games. Jonny's titles span the full range from independent development to 400-person projects, encompass a diverse range of genres, and together have been enjoyed by over 34 million people worldwide. Jonny holds zoology and computer science degrees, is an active member of BAFTA, including serving as a judge for five years, and on the BAFTA Young Designer committee. Jonathan joined the Board in February 2012.

JONATHAN MILNER
Non-Executive Director

Joined November 2012

Jonathan is an experienced entrepreneur and business leader with a background in genetic research. In 1998, he founded Abcam with David Cleevely and Professor Tony Kouzarides, to supply the rapidly growing market for antibodies and other life science reagents. As CEO, Jonathan was instrumental in building Abcam, which now has a market capitalisation of c.£850 million. Jonathan is an active supporter of the Cambridge, UK, business community. He is also Chairman of Axol Bioscience Limited and a Non-Executive Director of Horizon Discovery, a personalised genomics company.

Committees Remuneration

NEIL ARMSTRONG
Company Secretary and CFO

Joined June 2010

Neil qualified with Ernst & Whinney (now Ernst & Young) as a chartered accountant in 1989. He has previously held various senior finance positions in the SME space with experience of media, manufacturing and international charities as well as secondments to a London enterprise agency.

Committees supported Audit, Nominations, Remuneration

CORPORATE DIRECTORY

Directors
Mr D R Gammon
Mr D J Braben
Mr D J Walsh
Mr J F Watts
Dr J S Milner

Company Secretary and CFO
Mr N R Armstrong

Registered office
306 Science Park
Milton Road
Cambridge CB4 0WG

Company number
02892559

For a full list of advisors and company information see **page 60**

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MAY 2014

The Directors present their report for the Group and Company together with the financial statements for the year to 31 May 2014. The financial statements are prepared under International Financial Reporting Standards (EU adopted IFRS).

Business review

A review of the Group's development and performance is provided in the Strategic Report (page 5). Information on the financial risk management strategy is given within that report and in Note 30 to the financial statements.

Going concern

The Group's forecasts lead to a reasonable expectation that the Group has adequate resources to continue in its business for the foreseeable future.

Share issues

Details of shares issued during the year are detailed in note 17 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

Directors' remuneration and share options

Details of Directors' remuneration and share options are provided within the Remuneration Report and are in addition to the interests in shares shown above.

During the year David Braben sold 1,600,000 shares at a price of 250 pence per share, and also received 2,001,573 shares stemming from his controlling interest in Professional Practice Automation LLP whose business and assets were acquired by the Group.

David Gammon had an interest in the purchase of 42,000 shares at a price of 250 pence per share in two separate transactions, and also purchased 5,000 shares at 99 pence per share, both being acquired via Rockspring, a company which he controls.

Jonathan Milner purchased 90,000 shares at a price of 99.4 pence per share and received 347,384 shares upon conversion of a convertible loan note upon Admission to AIM at a price of 107.95 pence.

Jonathan Watts sold 8,500 shares at a price of 95 pence to Neil Armstrong, prior to the IPO.

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRSs have been followed, subject to any material departures disclosed and explained in the Company's financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors

The Directors who held office at 31 May 2014 and their interest in the share capital of the Company were as follows:

Name	2014 Number	2014 %	2013 Number	2013 %
David Gammon*	271,720	0.9	224,720	0.9
David Braben	17,895,953	53.6	17,494,380	69.3
David Walsh*	1,245,820	3.7	1,245,820	4.9
Jonathan Watts	23,500	0.0	32,000	0.1
Jonathan Milner*	662,104	2.0	224,720	0.9
Total	20,099,097	60.2	19,221,040	76.1

*Including direct family holdings

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' indemnity arrangements
During the year the Company purchased directors' and officers' liability insurance in respect of itself and its Directors.

Intellectual property and research and development
The Group actively protects its intellectual property via trademark registrations. Whilst the Directors consider these to be of significant value, the costs associated with registrations are expensed.

The Group invests heavily in research and development through the COBRA engine and associated development tools. Costs that meet the criteria for capitalisation are included in intangible assets (see note 7 of the financial statements). The Group's total spend in research and development to support its strategy was £1.2 million in the year (2013: £1.4 million).

Employee involvement
The Group seeks to encourage and promote an agile, open, fair and meritocratic culture of engagement, achievement and fun.

The Group is committed to the principle of equal opportunities in employment. Its aim is to ensure that no job applicant or employee receives less favourable treatment or is placed at a disadvantage by requirements or conditions that cannot be shown to be justifiable and thereby promote equality of opportunity for employment within the Group on grounds such as sex, disability, marital status, religion, colour, race, nationality, ethnic or national grounds, age or sexual orientation.

The Group's policies and procedures are created and administered in such a way that they do not tolerate or foster such discrimination.

The Group has an Employee Consultation group that meets regularly with senior management.

The Group encourages employee involvement in the Group's performance by using a contractual bonus scheme for all non-Director level staff. In addition it seeks to issue share options at relevant times.

Employment policies
The Group is committed to following UK employment law for its Cambridge-based operations and the Canada Labour Code for its Halifax, Nova Scotia, operation. Where possible the Group strives for similar employment and benefit arrangements between territories.

Health and safety and environment
The aim of the Directors is to provide healthy, safe and congenial working conditions, equipment and systems of work for all employees.

The Directors further intend to provide sufficient information, training and supervision to enable employees to do their work safely, effectively and without risk to themselves or to others.

We acknowledge that we are responsible for the safety of visitors, both professional and social, who enter the premises.

Frontier Developments plc recognises its duty to comply and operate within the requirements of statutory environmental legislation and is committed to minimising the environmental impacts of its business operations. The Directors of the Group will support this policy with this commitment in mind.

Substantial shareholders
At 3 September 2014 the following, other than the Directors whose shareholdings are listed on page 16, had notified the Company of disclosable interests in 3% or more of the nominal value of Frontier Developments plc of 0.5 pence each:

Name	Shareholding	%
Lansdowne Partners	3,263,089	9.8%
Chris Sawyer	2,505,726	7.5%
Amati Venture Capital	1,070,185	3.2%
Herald Investment Management	987,402	3.0%

Auditor
A resolution to re-appoint Grant Thornton UK LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting. In accordance with normal practice, the Directors will be authorised to determine the auditor's remuneration.

Approved by the Board of Directors and signed on behalf of the Board

Neil Armstrong
Company Secretary
3 September 2014

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MAY 2014

The Board

The Board of Frontier Developments plc is responsible for the long-term financial success of the business. We do not comply with the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the company and best practice.

The following statements set out the principles and methods to which it adheres. The Statement of Directors' Responsibilities is set out on page 16.

Board meetings and practices

The Board seeks to meet formally at least nine times a year including two 'offsite' strategic review days. All members of the Board are invited to attend all meetings. In the financial year to 31 May 2014 the Board met on 15 occasions, the additional meetings being required as part of the IPO process.

The Chairman and the Company Secretary plan the agenda for each Board meeting in consultation with all other Directors. That agenda is issued with supporting papers ahead of the Board meetings providing the appropriate information required to enable the Board to discharge its duties.

The matters reserved for the attention of the Board include:

- overall business strategy of the Group;
- review of key operational and commercial matters;
- review of key finance matters, including approval of financial plans, changes to capital structure, acquisitions and disposals of businesses and material capital expenditure, and dividends;
- governance: Board membership and powers including the appointment and removal of Board members, set up and delegation of matters to appropriate Committees, and the reviewing of reporting back thereof;
- approval of financial statements both interim and year end;
- stock exchange related issues including the approval of communications to the stock exchange and communications with shareholders in conjunction with any financial public relations firm;
- subsidiary Board appointments, as the 100% shareholder, and review of key decisions at their Board meetings;
- approval of acquisitions, disposals, borrowing facilities, premises and matters proposed by the corporate lawyer (Bird and Bird) and nominated advisor and broker (Canaccord Genuity); and
- appointment and performance review of key advisors.

Board composition

The Board of Frontier Developments plc comprises the Non-Executive Chairman, the Chief Executive Officer and two other Executive officers, the Company Secretary and one further Non-Executive Director. As can be deduced from the individual biographies, the Directors have a range of experience and provide a balance of skills, experience and knowledge to the Board.

All Directors are subject to election at the first Annual General Meeting following their appointment and to re-election thereafter at intervals of no more than four years.

Board Committees

Audit Committee

The Audit Committee determines the terms of engagement of the Company's auditor and, in consultation with the Company's auditor, the scope of the audit. It will receive and review reports from management and the Company's auditor relating to the interim and annual accounts and the accounting and internal control systems in use by the Company and Group. The Audit Committee has unrestricted access to the Company's auditor. The Audit Committee also reviews accounting and treasury policies, financial reporting including key performance indicators and supporting key areas of management judgements, and corporate governance standards. The Audit Committee is open to attendance by any Director and reports its key issues at Board meetings.

The Audit Committee comprises David Gammon, Neil Armstrong and Amanda Heslam (the Group Accountant).

In the financial year to 31 May 2014 the Audit Committee met on three occasions, including two meetings with the auditor present.

Remuneration Committee

The Remuneration Committee reviews the scale and structure of the Executive Directors' future remuneration and the terms of the service agreements with due regard to the interests of shareholders. No Director is permitted to participate in discussions or decisions concerning their own remuneration. The Remuneration Committee also approves annual salary review limits, bonus schemes and payment limits, and significant employee benefits, such as pension and share option schemes.

The Remuneration Committee comprises David Gammon, David Walsh and Jonathan Milner, supported by Neil Armstrong and, as required, Yvonne Dawes (HR manager).

In the financial year to 31 May 2014 the Remuneration Committee met on four occasions.

Nominations Committee

The Nominations Committee reviews the constituents of the Board and its committees to ensure appropriate balance representation.

The Nominations Committee comprises David Gammon and David Braben, supported by Neil Armstrong.

In the financial year to 31 May 2014 the Nominations Committee met on two occasions.

Company Secretary

The role of the Company Secretary is to ensure reliable and regular information flows to the Board and its committees and to ensure applicable rules and regulations are followed. The Company Secretary is available to all Directors to provide advice and assistance and is responsible for providing governance advice to the Board. The Company Secretary holds regular telephone calls with the Chairman.

Attendance at meetings

The number of meetings held and attendance by each Director and officer during the financial year to 31 May 2014 was as follows:

	Board	Remuneration Committee	Nominations Committee	Audit Committee
Number of meetings	15	4	2	3
David Gammon	15	4	2	3
David Braben	15	2	2	—
David Walsh	14	4	—	—
Jonathan Watts	15	1	—	—
Jonathan Milner	13	1	—	—
Neil Armstrong	15	4	2	3

Auditor independence

The external audit function provides independent review and audit. It is the responsibility of the Audit Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements and to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance.

Senior management and Group functions

The Executive Directors are supported by a number of senior managers; however the close involvement of the Executive Directors in the day-to-day activities of the business at the present time negates the need for a formal Executive Team. The Executive Directors and Company Secretary meet on a regular basis. Project meetings covering all projects individually, technology, finance, marketing, investor relations and HR meet on a weekly basis.

Project support is provided by the IT, customer support and marketing (including e-commerce) functions. Administration support is provided by a central finance, investor relations, HR, purchasing and site functions. All functions report to the Executive Team.

Internal control and assessment of business risk

The Board took the opportunity to fully review the Group's policies and procedures for internal controls to ensure an appropriate framework under which the business can operate and in line with regulations as part of its Admission to AIM.

The systems for internal control and risk management processes are designed to manage rather than eliminate risk of the achievement of strategic objectives. Such systems can only provide a reasonable but not absolute level of assurance against material misstatement or loss.

A risk assessment process is embedded within the project and administrative process within the Group. The strategic risks are regularly reviewed by the Board, a Corporate Risk Register is maintained by the Executive Directors to review key risks and the related controls and mitigation plans.

Control environment and internal audit

The Group has established operating procedures appropriate to its size and structure for reporting financial and non-financial information to the Board.

These include, but are not limited to:

- operating guidelines and procedures with approval limits;
- accounting policies, controls and procedures;
- performance monitoring systems updated monthly for review at Board meetings; and
- regulatory and legal changes that may materially impact on the business.

Due to the Executive Directors' close involvement in the business activities, the Group does not currently believe that an internal audit function would be cost effective. The Audit Committee reviews this position on a regular basis.

Investor relations

The Directors, together with the Group's advisors, held a number of meetings and discussions with key institutional shareholders, ensuring clarity around the Group's strategic intent. The Executive Directors and Officers also took the opportunity during the year to both 'tour with' and hold 'on-site' meetings to demonstrate *Elite: Dangerous* to both investors and potential investors The Group intends to use the Annual General Meeting to encourage attendance and participation by shareholders.

REMUNERATION REPORT

FOR THE YEAR ENDED 31 MAY 2014

As Frontier Developments is an AIM-listed company it is not required to disclose all the information in the Remuneration Report; however, in the interests of transparency the Board has chosen to provide the following details as a voluntary disclosure. The auditor is not required and has not, except where indicated, audited the information included in the Remuneration Report.

The Remuneration Committee is responsible to the Board for developing remuneration policy. The Report of the Remuneration Committee has been approved by the Board of Directors for submission for shareholders' approval at the Annual General Meeting.

Remuneration Committee terms of reference

The Remuneration Committee comprises both Non-Executive Directors of the Company and the Chief Operations Officer, supported by the Company Secretary. The Remuneration Committee meets at least twice a year.

The Remuneration Committee is responsible for the following functions:

- setting of remuneration for Directors and senior managers, including pay, bonuses and long-term incentive arrangements;
- approval of the overall increase for annual pay and bonus levels for all other staff;
- approval of share option plans or arrangements;
- setting of overall share option issues;
- approval of any significant employee benefit arrangements; and
- reviewing the Committee's terms of reference and submitting to the Board for subsequent approval.

Remuneration policy

The Remuneration Committee approved the following policy:

"Frontier endeavours to pay salaries and benefits around the median level for relevant skills. Where there is a material gap in remuneration, it is the policy of the Group to close this over time and subject to affordability."

As part of the Group's Admission to AIM the Remuneration Committee, along with its legal advisors, implemented new service agreements to take effect from 1 July 2013. In doing so and in recognition of the higher public profile the Committee reviewed the 'AIM Directors' Pay 2013' report published by Growth Company Investor, and identified a significant gap between Directors' actual pay to the policy intent.

Having commissioned a report from Deloitte on both Executive and Non-Executive remuneration, the Remuneration Committee has set out to accelerate the move to a median level of pay as soon as practical. In addition the Remuneration Committee aims to bring incentives in to place that align the Group's strategic objectives and investor interests with a large element of the total remuneration package.

Components of Executive Directors' remuneration

Overview

The remuneration policy is to maintain an appropriate balance between fixed elements of remuneration and performance related elements, with an increasing proportion of the latter.

Directors and staff are all encouraged to acquire shares in the Company and to hold these shares for the long term. This participatory element is an important aspect of the Group's culture and its focus on long-term performance.

As part of the changes the Remuneration Committee has plans to adopt the following:

- a move to median level pay as soon as practical;
- the set up of a new Executive share option scheme;
- the set up of a 'stretch goal' based bonus scheme;
- pension provision in line with the Group's auto enrolment plans; and
- medical insurance in line with the Group's plans for all employees.

Components of remuneration package

Service contracts

The service agreements adopted on 1 July 2013 for the Executive Directors can be terminated by either party provided at least six months' notice has been given.

Basic pay

Salaries were reviewed on 1 July 2013 upon the take up of new service agreements, required prior to Admission on AIM. A further interim review was undertaken in January 2014. Having considered the remuneration report from Deloitte a further review was taken to take effect from 1 June 2014.

Annual bonus

The bonus payment for the year to May 2013 was made in December 2013 of 8% of basic pay, For the year to May 2014 and in view of the results no bonus will be paid. An interim scheme has been adopted for the year to 31 May 2015 whereby a 5% pool of profit before tax and bonus will be allocated between Executive Directors, officers and senior management. The scheme is intended to operate in the same way as the staff contractual scheme whereby an element is paid pro rata and the remainder discretionary.

Share options

The Enterprise Management Initiative Scheme was replaced by a revised Company Share Option Plan which will be available to Executive Directors until such time as a longer-term executive arrangement can be put in place. No share options were granted in the year to the Executive Directors.

Pension contributions and life cover

The intention of the Committee is to place the Executive Directors under the proposed Group's scheme for pension auto enrolment and life cover arrangements. A basic life cover sum of £25,000 per person was adopted from 1 October 2013, Pension auto enrolment of a 1% employer contribution was commenced from 1 July 2014. These benefits are the same as adopted for all UK-based staff.

Non-Executive Directors' remuneration

The remuneration of Non-Executive Directors is determined by the Board and reflects their anticipated time commitment to fulfil their duties. The Non-Executive Directors' remuneration is subject to the same principles of the remuneration policy for the Group and the same transitional phase of alignment to median market rates was undertaken. The letters of appointment of Non-Executive Directors can be terminated with six months' notice for the Chairman and three months' for all other Non-Executives under notice given by either party. Share option warrants were issued to the Non-Executive Directors in connection with the IPO (see note 19 to the accounts).

Directors' remuneration (audited)

The remuneration of the Directors is as follows:

Current Directors	Salary/fee £'000	Bonus £'000	2014 Total £'000	2013 Total £'000
Executive				
David Braben	119	9	128	93
David Walsh	119	9	128	93
Jonathan Watts	119	9	128	99
Non-Executive				
David Gammon	37	—	37	24
Jonathan Milner	28	—	28	14
Total	422	27	449	323

The expense recognised in the statement of comprehensive income for the Directors' share options including Non-Executive Directors' was £186,055 (2013: £45,302) with the amount attributable to the highest paid Director being £64,099 (2013: £34,586).

A resolution to accept the Report of the Remuneration Committee will be put to shareholders at the Annual General Meeting.

David Gammon
Chairman, Remuneration Committee
3 September 2014

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FRONTIER DEVELOPMENTS PLC (REGISTERED NO: 02892559)

We have audited the financial statements of Frontier Developments plc for the year ended 31 May 2014 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated and company statement of cash flows, consolidated and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement as set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
3 September 2014

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY 2014

	Notes	31 May 2014 £'000	31 May 2013 £'000
Revenue	5	9,541	12,072
Cost of sales		(7,914)	(8,375)
Gross profit		1,627	3,697
Administrative expenses		(3,332)	(2,645)
Operating (loss)/profit		(1,705)	1,052
Finance income	24	63	19
(Loss)/profit before tax	6	(1,642)	1,071
Income tax	25	(112)	(26)
(Loss)/profit for the period attributable to the equity holders of the parent		(1,754)	1,045

All the activities of the Group are classified as continuing.

Earnings per share	26		
Basic (loss)/earnings per share		(5.8)p	4.2p
Diluted (loss)/earnings per share		(5.8)p	4.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY 2014

	31 May 2014 £'000	31 May 2013 £'000
(Loss)/profit for the period	(1,754)	1,045
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(30)	3
Total comprehensive income for the period attributable to the equity holders of the parent	(1,784)	1,048

The accompanying accounting policies and notes form part of this financial information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MAY 2014 (REGISTERED NO: 02892559)

	Notes	31 May 2014 £'000	31 May 2013 £'000
Non-current assets			
Intangible assets	7	10,962	3,450
Property, plant and equipment	9	328	299
Total non-current assets		11,290	3,749
Current assets			
Inventories	13	15	—
Trade and other receivables	14	2,964	2,082
Other short-term assets	15	106	—
Cash and cash equivalents	16	8,612	7,155
Total current assets		11,697	9,237
Total assets		22,987	12,986
Equity and liabilities			
Equity			
Share capital	17	167	127
Share premium account		13,805	1,847
Option reserve		790	643
Foreign exchange reserve		(30)	3
Retained earnings		4,160	5,775
Total equity		18,892	8,395
Liabilities			
Current			
Trade and other payables	20	1,207	3,060
Deferred income	21	2,456	—
Other short-term financial liabilities	22	14	—
Current tax liabilities		—	33
Total current liabilities		3,677	3,093
Non-current			
Provisions	23	223	187
Financial liabilities	22	121	—
Deferred income	21	—	1,283
Deferred tax	12	74	28
Total non-current liabilities		418	1,498
Total liabilities		4,095	4,591
Total equity and liabilities		22,987	12,986

These financial statements were approved by the Directors on 3 September 2014 and signed on their behalf by:

David Braben
Director

The accompanying accounting policies and notes form part of this financial information.

COMPANY STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MAY 2014 (REGISTERED NO: 02892559)

	Notes	31 May 2014 £'000	31 May 2013 £'000
Non-current assets			
Intangible assets	7	10,962	3,450
Investment in subsidiary undertaking	8	—	—
Property, plant and equipment	9	284	227
Total non-current assets		11,246	3,677
Current assets			
Inventories	13	15	—
Trade and other receivables	14	3,447	2,237
Other short-term assets	15	45	—
Cash and cash equivalents	16	7,997	6,819
Total current assets		11,504	9,056
Total assets		22,750	12,733
Equity and liabilities			
Equity			
Share capital	17	167	127
Share premium account		13,805	1,847
Option reserve		777	630
Retained earnings		3,668	5,648
Total equity		18,417	8,252
Liabilities			
Current			
Trade and other payables	20	1,654	3,010
Deferred income	21	2,456	—
Current tax liabilities		—	1
Total current liabilities		4,110	3,011
Non-current			
Provisions	23	223	187
Deferred income	21	—	1,283
Total non-current liabilities		223	1,470
Total liabilities		4,333	4,481
Total equity and liabilities		22,750	12,733

These financial statements were approved by the Directors on 3 September 2014 and signed on their behalf by:

David Braben
Director

The accompanying accounting policies and notes form part of this financial information.

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2014

	Notes	31 May 2014 £'000	31 May 2013 £'000
Operating activities			
(Loss)/profit after tax		(1,754)	1,045
Adjustments	27	2,446	2,198
Net changes in working capital	27	(413)	2,923
Taxes (paid)		(1)	(5)
Cashflow from operating activities		278	6,161
Investing activities			
Purchase of property, plant and equipment		(254)	(251)
Expenditure on intangible assets		(4,182)	(1,783)
Proceeds from disposal of non-derivative financial assets		21	—
Interest received		63	19
Cashflow from investing activities		(4,352)	(2,015)
Financing activities			
Proceeds from convertible loan notes		1,580	1,129
Proceeds from interest-free loan		175	—
Proceeds from issue of share capital		4,145	168
Cashflow from financing activities		5,900	1,297
Net change in cash and cash equivalents from continuing operations		1,826	5,443
Cash and cash equivalents at beginning of period		7,155	1,686
Exchange differences on cash and cash equivalents		(369)	26
Cash and cash equivalents at end of period		8,612	7,155

The accompanying accounting policies and notes form part of this financial information.

COMPANY STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2014

	Notes	31 May 2014 £'000	31 May 2013 £'000
Operating activities			
(Loss)/profit after tax		(2,094)	918
Adjustments	27	2,464	2,124
Net changes in working capital	27	(243)	2,677
Taxes (paid)		—	(5)
Cashflow from operating activities		127	5,714
Investing activities			
Purchase of property, plant and equipment		(246)	(148)
Expenditure on intangible assets		(4,182)	(1,783)
Proceeds from disposal of non-derivative financial assets		21	—
Interest received		57	19
Cashflow from investing activities		(4,350)	(1,912)
Financing activities			
Proceeds from convertible loan notes		1,580	1,129
Proceeds from issue of share capital		4,145	168
Cashflow from financing activities		5,725	1,297
Net change in cash and cash equivalents from continuing operations		1,502	5,099
Cash and cash equivalents at beginning of period		6,819	1,686
Exchange differences on cash and cash equivalents		(324)	34
Cash and cash equivalents at end of period		7,997	6,819

The accompanying accounting policies and notes form part of this financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2014

	Share capital £'000	Share premium account £'000	Option reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2012	12	1,794	263	—	4,694	6,763
Increase in equity in relation to options issued	—	—	416	—	—	416
Share-based payment transfer	—	—	(36)	—	36	—
Issue of share capital	1	167	—	—	—	168
Re-denomination of share capital	114	(114)	—	—	—	—
Transactions with owners	115	53	380	—	36	584
Profit for the year	—	—	—	—	1,045	1,045
Other comprehensive income:						
Exchange differences on translation of foreign operations	—	—	—	3	—	3
Total comprehensive income for the year	—	—	—	3	1,045	1,048
At 31 May 2013	127	1,847	643	3	5,775	8,395
Increase in equity in relation to options issued	—	—	286	—	—	286
Share-based payment transfer	—	—	(139)	—	139	—
Issue of share capital less expenses	40	11,958	—	—	—	11,998
Transactions with owners	40	11,958	147	—	139	12,284
Loss for the year	—	—	—	—	(1,754)	(1,754)
Other comprehensive income:						
Exchange differences on translation of foreign operations	—	—	—	(33)	—	(33)
Total comprehensive income for the year	—	—	—	(33)	(1,754)	(1,787)
At 31 May 2014	167	13,805	790	(30)	4,160	18,892

The accompanying accounting policies and notes form part of this financial information.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2014

	Share capital £'000	Share premium account £'000	Option reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2012	127	1,794	263	4,694	6,763
Increase in equity in relation to options issued	—	—	403	—	403
Share-based payment transfer	—	—	(36)	36	—
Issue of share capital	1	167	—	—	168
Re-denomination of share capital	114	(114)	—	—	—
Transactions with owners	115	53	367	36	571
Profit for the year	—	—	—	918	918
Total comprehensive income for the year	—	—	—	918	918
At 31 May 2013	127	1,847	630	5,648	8,252
Increase in equity in relation to options issued	—	—	260	—	260
Share-based payment transfer	—	—	(113)	113	—
Issue of share capital less expenses	40	11,958	—	—	11,998
Transactions with owners	40	11,958	147	113	12,258
Loss for the year	—	—	—	(2,093)	(2,093)
Total comprehensive income for the year	—	—	—	(2,093)	(2,093)
At 31 May 2014	167	13,805	777	3,668	18,417

The accompanying accounting policies and notes form part of this financial information.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Frontier Developments plc ("the Group") develops non-game applications and video games for the interactive entertainment sector. The Company is a public limited company and is incorporated and domiciled in the United Kingdom.

The address of its registered office is 306 Science Park, Milton Road, Cambridge CB4 0WG.

The Group's operations are based in the UK and a subsidiary, Frontier Developments Inc, based in Canada.

2. Basis of preparation and statement of compliance

The principal accounting policies applied in the preparation of this financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The financial information of Frontier Developments plc has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial information has been prepared under the historical cost convention. The financial information is presented in Sterling, the presentation currency for the Group and Company, and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The preparation of this financial information requires the Directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Going concern basis

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of approval of these financial statements. The Group therefore continues to adopt the going concern basis in preparing its financial statements. Having listed on AIM in the financial year and acquired a revolving credit facility to support its plans, the Group remains cash positive.

3. Principal accounting policies

Basis of consolidation and business combinations

Basis of consolidation

The consolidated financial statements incorporate those of the Group and all entities controlled by it, after eliminating internal transactions. Control is achieved where the Group has the power to control the financial and operating policies through its share ownership. Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The entities' results are adjusted, where appropriate, to conform to Group accounting policies.

a) Business combinations

Business combinations are accounted for using the acquisition method under the revised IFRS 3 "Business Combinations" (IFRS 3R). The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration agreement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

3. Principal accounting policies *continued*

b) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to the income statement so as to write off the cost less estimated residual values over their expected useful lives on a straight line basis over the following periods:

Fixtures and fittings	5 years
Computer equipment	2½ years – 5 years
Leasehold improvements	Length of the lease

Residual values and useful economic lives are assessed annually. The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in administrative expenses.

c) Intangible assets

Intangible assets are measured at historic cost and are amortised on a straight line basis over their expected useful economic life. They comprise three categories:

- development tools;
- software (self-published games) and royalty rights acquired in connection with jointly held IP; and
- software (third party).

An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- completion of the intangible asset is technically feasible so that it will be available for use in developing games (in respect of development tools) or for sale of games (in respect of self-published software);
- the Group intends to complete the intangible asset and has the ability to use or licence it as indicated above, thus generating probable future economic benefits;
- the expenditure attributable to the intangible asset during its development, mainly salary costs, can be measured reliably; and
- the Group has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Internally generated intangible assets, consisting of direct labour costs, other specific direct project costs and attributable project support costs, are amortised on a straight line basis over their useful economic lives. The estimated useful lives of current development projects are between two and five years. When a self-published game is intended for release on multiple platforms without material content change, amortisation is based on the aggregated number of months expected on each platform prior to any planned substantive sequel with a limit of up to four years. The limit of four years is a prudent estimate of the expected active selling lifetime of the platforms, for example consoles. Until completion the assets are subject to annual impairment testing. In most circumstances amortisation commences upon completion of the asset and is shown within cost of sales in the income statement. For certain projects that include a pre-funded element, a significant accounting estimate is made (see note 4).

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

d) Research activities

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

e) Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and individual intangible assets for any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the fair value less costs to sell or value in use.

Fair value is measured for self-published games by discounting future cashflows. For all other assets a review of the expected useful economic life is undertaken and compared to that implied in the amortisation rate.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

3. Principal accounting policies *continued*

f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the total accumulated project cost less the amount expensed as cost of sales, being an allocation to match sales revenue, subject to an economic benefit test of milestone delivery for long-term contracts. Economic benefit tests are measured by reference to contractual terms such as acceptance and approval of a milestone by the customer. Net realisable value is based on estimated selling value less additional cost to completion and distribution. Provisions are made for obsolete or defective elements (which do not meet quality criteria and have to be replaced in full) of cost where appropriate and are recognised as an expense in the period in which the write down or loss occurs.

Inventory also comprises stock of merchandise items held at a third party distribution location, these are reviewed at the balance sheet date for an indication of slow moving and defective items. Where such an indication exists a suitable provision is made.

g) Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its financial liabilities. Equity instruments do not include a contractual obligation to deliver cash or other financial assets to another entity. Any instrument that does have the obligation to deliver cash or another financial asset to another entity is classified as a financial liability.

Financial liabilities are presented under liabilities on the statement of financial position.

Financial assets

Financial assets comprise assets trade receivables, other receivables and cash and cash equivalents.

Trade and other receivables are recognised initially at fair value and measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the assets carrying amount and the present value of estimated future cashflows discounted at the financial assets original effective interest rate.

Financial liabilities

The Group's financial liabilities include trade and other payables and convertible loan notes.

Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method, except for financial liabilities designated at fair value through profit and loss (FVTPL). All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

The convertible loan notes issued in the year are recognised as financial liabilities rather than equity as their characteristics are more akin to debt rather than equity. All the convertible loan notes converted to ordinary shares upon listing on AIM.

Fair value measurements recognised in the balance sheet

Financial instruments that are measured subsequent to initial recognition at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

3. Principal accounting policies *continued*

g) Financial instruments continued

Share capital and reserves

Share capital represents the nominal value of the shares that have been issued.

Share premium – Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

Option reserve – This reserve represents equity-settled share-based employee remuneration until such share options are exercised.

Foreign exchange reserve – This represents the exchange difference on consolidation of overseas subsidiaries.

Retained earnings – Retained earnings include all current and prior period retained earnings.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits available on demand.

i) Income taxes

Income tax expense comprises the current and deferred tax.

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting period that are unpaid at the statement of financial position date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement, except where it relates to items outside profit or loss. Tax relating to items in other comprehensive income is recognised in other comprehensive income and tax relating to items directly in equity is recognised directly in equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. However, deferred tax is not provided on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax liabilities are always provided in full. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Deferred tax is recognised as a component of tax expense in the income statement. Deferred tax relating to items directly in equity is recognised directly in equity and deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income.

j) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement net of any incentives received from the lessor on a straight line basis over the period of the lease.

k) Revenue recognition

Revenue represents amounts derived from the design, production and sale of computer games software and related technology which fall within the Group's ordinary activities, exclusive of value added tax and other similar sales taxes. Revenue is measured by reference to the fair value of consideration received or receivable.

Revenue includes income from the design and production of computer software contracted for customers, royalties from published games, income from the release of self-published games, and crowd-sourced funding pledges.

Revenues on project contracts are mapped against the expected profile of costs. In most circumstances these are closely correlated.

Where there is close correlation between the revenue and cost profile, the milestones within the project contracts are considered to approximate the stage of completion of the obligations under the contract and therefore recognition of revenue based on these milestones provides a sufficiently accurate approximation of recognition of revenue on a stage of completion basis, except for where there are significant acceptance requirements. Under such arrangements, revenue is recognised when the Group has substantially met all its performance obligations and the customer has approved the relevant milestone.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

3. Principal accounting policies *continued*

k) Revenue recognition continued

Where there is less correlation between the revenue and cost profile, revenue from customer specific contracts are recognised on the stage of completion of each assignment (milestone) at the period end date compared to the total estimated service based on the estimate of labour and other costs to be provided over the entire contract where the outcome can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. An expected loss on a contract is recognised immediately in the income statement.

Additionally project contracts may contain provision for the pass through of subcontract costs, these are recharged on a matching basis in the same period as the underlying cost.

Revenue earned from royalties under distribution agreements are recognised in the period that the sales to the end customer are made, estimated on an accruals basis as royalty reports are generally per calendar quarter.

Revenue from released self-published titles is recognised on download of the game or part thereof (micro transaction) from the sales channel and/or distribution platform.

Revenue from crowd-funding for self-published titles is normally recognised when the Group meets its performance obligations. Where there is no clear performance obligation, for example, membership of a development forum, this is taken as revenue over the expected development period of the game on a straight line basis.

l) Employee benefits

All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability.

The parent company operates a defined contribution retirement benefit scheme which was commenced on 1 January 2014 ahead of the Company's expected auto enrolment date. Payments to defined contribution retirement benefit schemes are charged as an expense in the period to which they relate.

m) Share-based payment transactions

Share options are periodically granted to staff. Share options are measured at fair value at the date of issue and recognised over the vesting period of the option. Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model is an estimate of the likely average expiry date of the options by reference to the current rate of exercise by employees. The share-based payment is recognised as an expense in profit or loss, together with a corresponding credit to a share-based payment reserve in equity. This expense is recognised on a straight line basis based on the Group's estimate of the number of shares that will vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, the proceeds received up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium.

n) Foreign currencies

Transactions denominated in a foreign currency are translated at the rate of exchange ruling at a month-end rate in order to approximate to actual rate for the relevant transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date.

Foreign exchange differences are charged to the income statement in the period in which they arise.

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the statement of financial position date. Income and expenses are translated at the actual exchange rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are recognised in other comprehensive income and are accumulated in the foreign currency reserve in equity. On disposal of a foreign operation, the cumulative translation differences are transferred to the profit and loss as a reclassification adjustment as part of the gain or loss on disposal.

o) Segment reporting

The Group identifies only one operating segment as the business is managed as a whole. For management purposes the chief operating decision maker reviews the financial information which is consistent with that reported in its financial statements, with financial performance measured on the basis of earnings before interest, tax, depreciation and amortisation. Assets are not directly attributable to any separable activity.

3. Principal accounting policies *continued*

p) Provisions

Provisions for dilapidations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

q) Standards and interpretations not yet applied

The following new standards, which are yet to become mandatory, have not been applied in the financial statements:

- IFRS 9 "Financial Instruments" (effective 1 January 2014)
- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2014)
- IFRS 11 "Joint Arrangements" (effective January 2014)
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2014)
- IAS 27 (Revised) "Separate Financial Statements" (effective 1 January 2014)
- IAS 28 (Revised) "Investments in Associates and Joint Ventures" (effective 1 January 2014)
- Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (effective 1 January 2014)
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (effective 1 January 2014)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) (effective 1 January 2014)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective 1 January 2014)

Based on the Group's current business model and accounting policies, management does not expect material impacts on the financial information when the standards become effective. The Group does not intend to apply these pronouncements early.

4. Significant accounting estimates and key judgements

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Intangible assets

The Group invests heavily in research and development. The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done. Development costs of software tools within a project that can be utilised generically are separately identified. Judgements are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis but remains uncertain at the time of recognition as it may be subject to future technical problems and therefore a review for indicators of impairment is completed by product at each period end date. The net book values of the Group and Company intangible assets including rights acquired at 31 May 2014 are £10,961,795 (2013: £3,449,515).

Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example, a decision to suspend a self-published title under development.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cashflows.

Games developed to be self-published are reviewed for impairment based on the status at the end of each financial year and at the half year against a prudent level of the projected net earnings.

In respect to amortisation, normally self-published titles are amortised on completion of the game, however an exception to this occurs when project funding is obtained via innovative crowd-funded platforms, such as Kickstarter. Such funding is generally seen as 'contributing to make the game happen' and requires the Company to set up a number of pledge levels which include a donation element. When 'donation and intangible' elements of pledge levels are recognised as revenue, an equivalent amount of amortisation charged reflecting this 'contribution element'. The pledge levels also include delivery of a number of 'early versions' of the game, an estimated and prudent cost of sale is applied as amortisation. In the case of *Elite: Dangerous* 75% was used. In the financial year to May 2014 £271,143 of amortisation was recognised for these elements of *Elite: Dangerous* (May 2013: £145,280).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

4. Significant accounting estimates and key judgements *continued*

b) Trade receivables and recovery of work in progress

Trade receivables are stated net of any impairment for bad and doubtful debts, based on the Group's best estimate of the likelihood of recovery on a specific basis. Recovery of work in progress is dependent on the successful completion of projects. Judgement is therefore needed to be applied for projects which are in progress regarding the ability of the Group to complete and deliver the project in accordance with contractual terms.

Where trade receivables rely on non cash-based methods of recoupment such as an offset of commission from Frontier selling jointly held IP, these balances are assessed for fair values against separately identifiable cashflows.

c) Deferred tax

A deferred tax asset is recognised where the Group considers it probable that future tax profits will be available against which the tax credit will be utilised in the future. This specifically applies to tax losses and to outstanding vested share options at the statement of financial position date. In estimating the amount of the deferred tax asset that should be recognised, the Directors make judgements based on current forecasts about the amount of future taxable profits and the timings of when these will be realised. A deferred tax asset is currently not being recognised in full due to the unpredictability of future taxable trading profits.

d) Revenue recognition

Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on contracts. In this process management takes into account milestones, actual work performed and further obligations and costs expected to complete the work. Management monitors the progress and has regular dialogue with customers to confirm the project status.

Where self-published titles have an element of pre-funded development costs obtained through crowd-funding sources, recognition is made by reference to delivery of individual pledge levels. Revenue stemming from the sale of 'early versions' of a game are recognised from the date of release of the 'early version' to the expected date of full game release on a straight line basis.

e) Acquisition of Professional Practice Automation LLP (PPA)

The acquisition of PPA LLP is not considered to be a business combination as the purpose of the transaction was to acquire the franchise rights held by PPA LLP.

5. Segment information

The Group identifies operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker and reported to the Board. The chief operating decision maker is the Chief Executive Officer.

Management information is reported as a single operating segment being the design and production of computer software irrespective of platform or route to market. Resources are managed on the basis of the Group as a whole.

The Group's revenues from external customers are divided into the following geographical areas:

	31 May 2014 £'000	31 May 2013 £'000
United Kingdom (country of domicile)	1,807	113
United States of America	7,470	11,684
Rest of the world	264	275
	9,541	12,072

At 31 May 2014 £43,342 of non-current assets are based in Canada (2013: £72,574), with the remainder in the UK.

In 2014 there were two customers whose revenue accounted for more than 10% of the Group and Company's total revenue. Both customers are based in the United States of America; one of these customers accounts for 70% of revenue (2013: 94%) and the other customer accounts for 18% of revenue (2013: 0%).

All material revenue is categorised as either 'self-published', 'publishing' or royalties.

	31 May 2014 £'000	31 May 2013 £'000
Publishing	7,707	11,355
Self-published	469	511
Royalties	1,362	203
Other	3	3
	9,541	12,072

5. Segment information *continued*

Adjusted EBITDA before material exceptional items is a key performance indicator for the Group and is also used by the Chief Executive Officer and is calculated as follows:

	31 May 2014 £'000	31 May 2013 £'000
Operating (loss)/profit	(1,705)	1,052
Depreciation	225	151
Amortisation and impairment	1,802	1,650
EBITDA	322	2,853
Share-based compensation	286	416
Funding costs/listing expenses	217	308
Dilapidation provision	37	37
Fair value adjustments	32	—
Gain on investment	(21)	—
Canada set-up fees	—	10
Adjusted EBITDA	872	3,624

6. (Loss)/profit before tax

		31 May 2014 £'000	31 May 2013 £'000
This is stated after charging/(crediting):			
Amortisation and impairment on intangibles		1,802	1,650
Depreciation of owned property, plant and equipment:		225	151
Research and development costs expensed		371	603
Auditor remuneration:			
Audit services	– statutory audit	30	37
Non-audit services	– tax services	6	4
	– other services	67	133
Operating leases	– land and buildings	527	495
Foreign exchange loss/(gain)		336	(26)

NOTES TO THE FINANCIAL STATEMENTS
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7. Intangible assets
Group and Company
The Group and Company intangible assets comprise capitalised development tools and self-published software from internal development activities and acquired software licences. The carrying amounts for the reporting periods under review can be analysed as follows:

	Development tools and licences £'000	Self-published software £'000	Third party software £'000	Total £'000
Cost				
At 31 May 2012	5,023	854	737	6,614
Additions	695	1,013	75	1,783
Disposals	(768)	—	—	(768)
Transfer to tangibles	—	—	(17)	(17)
Transfer from tangibles	—	—	14	14
Adjustment	—	(78)	—	(78)
At 31 May 2013	4,950	1,789	809	7,548
Additions – arising from internal development	1,214	2,821	147	4,182
Additions – acquired separately	—	5,148	—	5,148
Disposals	(1,637)	—	—	(1,637)
Adjustment	—	(16)	—	(16)
Impairment	—	(276)	—	(276)
At 31 May 2014	**4,527**	**9,466**	**956**	**14,949**
Amortisation and impairment				
At 31 May 2012	2,454	292	537	3,283
Charge for the period	1,093	446	111	1,650
Disposals	(768)	—	—	(768)
Transfer to tangibles	—	—	(1)	(1)
Transfer from tangibles	—	—	12	12
Adjustment	—	(78)	—	(78)
At 31 May 2013	2,779	660	659	4,098
Charge for the period	883	506	137	1,526
Disposals	(1,637)	—	—	(1,637)
At 31 May 2014	**2,025**	**1,166**	**796**	**3,987**
Net book value at 31 May 2014	**2,502**	**8,300**	**160**	**10,962**
Net book value at 31 May 2013	2,171	1,129	150	3,450

All amortisation charges, impairments or reversals (if any) are included within cost of sales.

The impairment arose from a review of the monetisation profile of the Coaster Crazy franchise.

The additions acquired separately were the Elite rights acquired from Professional Practice Automation LLP.

8. Investment in subsidiary undertaking
The Company holds a £66 investment in Frontier Developments Inc, a company registered in Canada. This represents 100% of the ordinary share capital of the company which is engaged in non-game applications and video games for the interactive entertainment sector.

9. Property, plant and equipment

Group

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2012	221	955	4	1,180
Additions	19	226	6	251
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	17	—	17
Transfer to intangibles	—	(14)	—	(14)
At 31 May 2013	240	1,179	10	1,429
Additions	34	220	—	254
Disposals	(1)	—	—	(1)
At 31 May 2014	273	1,399	10	1,682
Depreciation				
At 31 May 2012	153	838	4	995
Charge for the period	33	117	1	151
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	1	—	1
Transfer to intangibles	—	(12)	—	(12)
At 31 May 2013	186	939	5	1,130
Charge for the period	45	179	1	225
Disposals	(1)	—	—	(1)
At 31 May 2014	230	1,118	6	1,354
Net book value at 31 May 2014	43	281	4	328
Net book value at 31 May 2013	54	240	5	299

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

9. Property, plant and equipment *continued*
Company

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2012	221	955	4	1,180
Additions	11	137	—	148
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	17	—	17
Transfer to intangibles	—	(14)	—	(14)
At 31 May 2013	232	1,090	4	1,326
Additions	27	209	—	236
Disposals	(1)	—	—	(1)
At 31 May 2014	**258**	**1,299**	**4**	**1,561**
Depreciation				
At 31 May 2012	153	838	4	995
Charge for the period	31	89	—	120
Disposals	—	(5)	—	(5)
Transfer from intangibles	—	1	—	1
Transfer to intangibles	—	(12)	—	(12)
At 31 May 2013	184	911	4	1,099
Charge for the period	40	139	—	179
Disposals	(1)	—	—	(1)
At 31 May 2014	**223**	**1,050**	**4**	**1,277**
Net book value at 31 May 2014	**35**	**249**	**—**	**284**
Net book value at 31 May 2013	48	179	—	227

Depreciation charges are apportioned to the income statement as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Charge				
Cost of sales	196	89	150	88
Administration expenses	29	62	29	32
Total	**225**	151	**179**	120

10. Operating leases as lessee

At each period end the future minimum operating lease payments were as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Minimum lease payments due within one year	487	535	372	415
Minimum lease payments due within one to five years	271	801	28	400
Total	758	1,336	400	815

Group lease payments recognised as an expense during the year ended 31 May 2014: £526,599 (2013: £495,269).

The lease payments relate to the rental contracts for the office buildings, which expire April 2015 and August 2015; negotiation for new leases to replace these has commenced. The lease signed in October 2012 for the Canadian subsidiary expires September 2017.

Company lease payments recognised as an expense during the year ended 31 May 2014: £415,983 (2013: £415,983).

The lease payments relate to the rental contracts for the office buildings, which expire April 2015 and August 2015. The Group's and Company's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

11. Financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Financial assets				
Loans and receivables				
Trade and other receivables	2,259	1,808	2,904	2,046
Cash and cash equivalents	8,612	7,155	7,997	6,819
Total	10,871	8,963	10,901	8,865

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Financial liabilities				
Financial liabilities measured at amortised cost:				
Trade and other payables	951	1,122	1,398	1,050
Designated at fair value through profit and loss:				
Interest-free loan	135	—	—	—
Convertible loan notes	—	1,129	—	1,129
Total	1,086	8,963	1,398	8,865

The financial liability associated with the convertible loan notes comprised interest cashflows payable at 8% and an embedded derivative liability to convert to a variable number of shares. The loan notes converted to equity on the admission to AIM. During the year the Company received CD$301,530 in 0% interest funding from the Atlantic Canada Opportunities Agency (ACOA). Further funding can be claimed next financial year up to a maximum of borrowing of CD$500,000. The funding is scheduled to be repaid over 60 months beginning in March 2015 at a stated monthly payment of CD$8,334.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

12. Deferred tax assets and liabilities
Deferred taxes arising from temporary differences can be summarised as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Accelerated capital allowances	503	520	505	522
Short-term temporary differences (restricted)	(429)	(39)	(505)	(69)
Tax losses (restricted)	—	(453)	—	(453)
Total liability	74	28	—	—
Balance brought forward	28	—	—	—
Effect of tax rate change on opening balance	—	—	—	—
Effect of exchange rate change on opening balance	1	—	—	—
Movement in year	45	28	—	—
Balance carried forward liability	74	28	—	—

No deferred tax asset at 31 May 2014 has been recognised in the statement of financial position for the Group. The deferred tax liability at 31 May 2014 is £73,781 (2013: £27,793), being wholly attributable to the Canadian entity.

The table below summarises the deferred tax assets for the Group and Company which have not been recognised in the financial statements as only a proportion of the tax losses are anticipated to crystallise or be able to be used in the foreseeable future. Total UK tax losses available at 31 May 2014 amount to £6.7 million (2013: £3.7 million). Total UK based short-term temporary differences available at 31 May 2014 amount to £632,210 (2013: £69,000).

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Deferred tax asset not provided				
Short-term temporary differences	(125)	—	(127)	—
Losses	(996)	(397)	(996)	(397)
Total	(1,121)	(397)	(1,123)	(397)

13. Inventories
Inventories recognised in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Work in progress	3	—	3	—
Merchandise	12	—	12	—
Total inventory	15	—	15	—

There is no material difference between the replacement cost of inventory and the amounts stated above.

For the year ended 31 May 2014 a total of £16,061 was expensed for merchandise (2013: £nil); for work in progress an amount of (£3,339) was (credited) in profit and loss cost of sales (2013: £94,366 expensed).

14. Trade and other receivables

Trade and other receivables recognised in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Trade receivables, gross	953	1,580	953	1,580
Intercompany receivable	—	—	706	325
Trade receivables, net	953	1,580	1,659	1,905
Other receivables	1,306	228	1,245	141
Financial assets	2,259	1,808	2,904	2,046
Prepayments	532	230	515	191
VAT and other taxes	173	44	28	—
Non-financial assets	705	274	543	191
Trade and other receivables	2,964	2,082	3,447	2,237

All amounts are short term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

Within other receivables is an amount due from Atari S.A. for royalties arising from a distribution agreement. The terms of this agreement allow recoup as a commission from the Group distributing the product on its own e-commerce site or via non-PC platforms. This receivable has been determined to be Level 3 in the hierarchy by applying a net discounted cashflow against expected incomes and costs to completion. As a result of this review an expense of £62,630 has been recognised in the income statement. An amount of £629,502 was recorded within other receivables being royalties due from Microsoft under the game agreement for Kinect Disneyland Adventures; these were received in August 2014.

Group

			Past due but not impaired	
	Total £'000	Neither past due nor impaired £'000	0–90 days £'000	>90 days £'000
May 2014	953	953	—	—
May 2013	1,580	1,580	—	—

No receivables are past their due date and the balances comprise receivables from highly credit rated customers.

Company

			Past due but not impaired	
	Total £'000	Neither past due nor impaired £'000	0–90 days £'000	>90 days £'000
May 2014	1,659	1,659	—	—
May 2013	1,905	1,905	—	—

No receivables are past their due date and the balances comprise receivables from highly credit rated customers.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

15. Other short-term assets
Other short-term financial assets comprise:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Investment in shares	33	—	33	—
Software applications	6	—	6	—
Current tax assets	67	—	6	—
Other short-term assets	106	—	45	—

The investment in shares was acquired via an agreement with Atari S.A. (quoted on the Paris Stock Exchange) in respect to balances owing under their Chapter 11 administration process. Fair value has been applied by using Level 1 of the hierarchy in respect to the share price ruling at balance sheet date, resulting in an expense to the income statement of £22,646.

Software applications were acquired under the asset acquisition from Professional Practice Automation LLP; the Group is in discussions to sell these applications to third parties.

16. Cash and cash equivalents
Cash and cash equivalents include the following components:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Cash at bank and in hand				
GBP	5,410	5,411	5,411	5,411
USD	1,170	1,218	1,169	1,217
EUR	38	22	38	22
CAD	1,994	504	1,379	169
Financial assets	8,612	7,155	7,997	6,819

Cash at bank earns interest at a floating rate based on the length of deposit at standard commercial terms. The net carrying value of cash and cash equivalents equates to fair value.

17. Equity
Share capital

Group and Company movements in share capital

Movements in ordinary shares are as follows:

	2014		2013	
	Number '000	Value '000	Number '000	Value '000
At 1 June 2012 and 31 May 2013				
Ordinary shares of 0.5 pence (0.1 pence)	25,234	127	12,364	12
Shares issued on option exercises	338	1	253	1
Shares issued pre-IPO	132	1	—	—
Shares re-denomination December 2012	—	—	12,617	114
Shares issued upon listing on AIM	5,678	28	—	—
Shares issued as non-cash consideration	2,002	10	—	—
At 31 May 2014	33,384	167	25,324	127

17. Equity *continued*

Share capital *continued*

Group and Company movements in share capital *continued*

During the year to 31 May 2014 the following share issues were made:

On 6 June 2013 131,580 ordinary shares of 0.5 pence were issued as fully paid at a premium of 94.5 pence per share.

On 15 July 2013 the Group listed on AIM and issued 3,169,292 ordinary shares of 0.5 pence were issued as fully paid at a premium of 126.5 pence per share. At the same time 2,509,504 ordinary shares of 0.5 pence were issued as fully paid in respect to the convertible loan notes at a premium of 107.45 pence.

The equity issue related costs expensed to the share premium account as part of the listing to AIM were £273,888.

From 16 July 2013 to 31 May 2014 337,802 ordinary shares of 0.5 pence were allotted as fully paid at an average premium of 76.3 pence being the exercise of share options by employees. The average market value was 201.5 pence on the days of exercise.

On 6 May 2014 2,001,573 ordinary shares of 0.5 pence were issued as fully paid as the consideration paid to Professional Practice Automation LLP for the acquisition of its assets. The market value on the day of approval was 257.5 pence.

18. Employee remuneration

Expenses recognised for employee benefits (including Directors) are analysed below.

Staff costs for all employees, including Directors, consist of:

	31 May 2014 £'000	31 May 2013 £'000
Wages and salaries	8,577	7,517
Social security costs	876	774
Pension costs	18	—
Share-based compensation	180	416
	9,651	8,707

Included in the above payroll costs for the year ended 31 May 2014 is £4,027,605 (2013: £1,621,571) capitalised within intangible fixed assets (note 7). Pension costs relate to contributions to the parent company's new defined contribution scheme set up ahead of auto enrolment.

The average number of employees, including Directors, during the period was:

	31 May 2014 £'000	31 May 2013 £'000
Research and development	233	212
General and administrative	12	14
	245	226

Remuneration of Directors

	31 May 2014 £'000	31 May 2013 £'000
Directors' emoluments	384	318
Non-Executive fees	28	14
Non-Executive consultancy fees	34	24

Emoluments of highest paid Directors

	31 May 2014 £'000	31 May 2013 £'000
Emoluments per Director	128	99

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

18. Employee remuneration *continued*

Remuneration of key management personnel

	31 May 2014 £'000	31 May 2013 £'000
Short-term employee benefits		
Salaries including bonuses	1,012	755
Social security	128	101
Total short-term employee benefits	1,140	856
Non-Executive fees	65	38
Share-based compensation charge	212	183
Key management of the Group are the Board and senior management (functional heads).		
Number of key management personnel, including Directors, at the statement of financial position date	14	11

A total of 42,000 share options were issued in the year to key management under the Company's new Company Share Option Plan. The number of options exercised for ordinary shares in the year ended 31 May 2014 was 89,400 from previous EMI grants.

19. Share options

The Group has a new Company Share Option plan for employees, under which options may be granted to employees (including Directors) to subscribe for ordinary shares in the Group. The scheme was approved in January 2014.

Date of grant	Scheme type	Period when exercisable	Price in pence	2014 Number	2013 Number
6 December 2005	2002 EMI scheme	2006–2015	67	675,475	843,800
30 July 2013	2013 EMI scheme	2013–2011	89	1,036,523	1,214,000
30 January 2013	Unapproved	2014–2023	89	34,000	100,000
15 May 2013	2013 EMI scheme	2014–2023	95	230,000	240,000
15 May 2013	Unapproved	2014–2023	95	—	20,000
21 March 2014	Company Share Option Plan	2017–2024	224.5	251,000	—
				2,226,998	2,417,800

A number of share warrants were issued as part of the pre-IPO and IPO process as follows:

Date of grant	Warrant type	Period when exercisable	Price in pence	2014 Number	2013 Number
8 July 2013	Unapproved pre-IPO warrants*	2013–2023	95	65,790	—
15 July 2013	Unapproved IPO warrants**	2013–2015	127	232,832	—
15 July 2013	Unapproved IPO warrants*	2013–2023	127	147,638	—
				446,260	—

* These share options were issued to the Non-Executive Directors (including Rockspring which is a company controlled by David Gammon) at the prevailing market price as follows:

Non-Executive	8 July Number	15 July Number
Rockspring	52,632	118,100
Jonathan Milner	13,158	29,528

** Of these share options 217,084 were issued to Canaccord Genuity Limited for services rendered as part of the IPO process and 15,748 to Adam Glinsman for services rendered as part of the IPO process, a pre-IPO investor upon listing at the flotation price

19. Share options *continued*

Movements in the number of employee and non-executive share options outstanding and their related weighted average exercise price are as follows:

	Group and Company year ended			
	31 May 2014		31 May 2013	
	Number	Average exercise price in pence	Number	Average exercise price in pence
Opening balance	2,417,800	82.0	1,869,800	50.2
Adjustment	30,000	82.0	—	—
Granted	464,428	175.2	1,626,000	90.0
Exercised	(337,802)	76.8	(505,382)	33.0
Forfeited	(134,000)	90.0	(572,618)	44.0
Closing balance	2,440,426	100.0	2,417,800	82.0
Exercisable at the year end	2,189,426	85.6	843,800	67.0

The weighted average share price at the date of exercise of the share options was 201.5 pence.

The share options at the end of May 2014 including those for Non-Executive Directors have a weighted average contractual life as follows:

		Group and Company year ended			
		31 May 2014		31 May 2013	
Expiry date	Exercise price per share Pence	Options Number	Weighted average remaining contractual life Months	Options Number	Weighted average remaining contractual life Months
December 2015	67	675,475	19	843,800	31
July 2022	89	1,036,523	96	1,214,000	108
January 2023	89	34,000	104	100,000	116
May 2023	95	230,000	108	260,000	120
July 2023	95	65,790	110	—	—
July 2023	127	147,638	110	—	—
March 2024	224.5	251,000	118	—	—
Total		2,440,426	79	2,417,800	83

Under the rules of the new Company Share Option Plan, options are not exercisable until three years from the date of the grant. There are no performance conditions attaching to the options. The only vesting condition is continued service in the Company.

For the warrants issued, the pre-IPO related options issued to Non-Executive Directors and the IPO options issued to third parties vested immediately. The IPO related options issued to Non-Executive Directors vest after one year.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

19. Share options *continued*

Fair value assumptions of share-based payments

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of fair value measured using the Black-Scholes model. Details of the fair value granted in the period, together with the assumptions used in determining the fair value are summarised below:

	July 2013 Pre-IPO	July 2013 IPO	March 2014
Share price at date of grant (pence)	95	127	224.5
Exercise price	95	127	224.5
Expected time to expiry (years)	10	10	7.94
Risk-free interest rate (%)	4.3	4.3	4.3
Expected dividend yield on shares (%)	0	0	0
Expected volatility of share price (%)	20	20	40
Fair value of options granted (pence)	68.7	53.7	122.6

The assumptions for the March 2014 are based on statistical analysis of share price data from the listing on AIM from 15 July 2014 to the date of grant, hence the changes to volatility and expected life.

20. Trade and other payables

Trade and other payables recognised in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Trade payables	463	183	463	153
Intercompany payable	—	—	500	30
Other taxation and social security	270	284	254	285
Accruals	474	1,464	437	1,413
Convertible loan note	—	1,129	—	1,129
Total trade and other payables	1,207	3,060	1,654	3,010

Trade and other payables are due within one year and with the exception of the convertible loan note are non-interest bearing. The convertible loan note carries an interest rate of 8% per annum. The loan notes were converted into ordinary shares on the AIM IPO at a discount rate of 15% of the listing price. The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

21. Deferred income

Deferred income in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Contractual	268	—	268	—
Self-published	2,188	1,283	2,188	1,283
Deferred income	2,456	1,283	2,456	1,283

Deferred income is due within one year (in the prior year due over one year from the self-published source). The carrying values of deferred income are considered to be a reasonable approximation of fair value. Self-published deferred income derives from a combination of crowd-sourced income raised and pre-orders from the sale of *Elite: Dangerous* planned for release within one year.

22. Other short-term liabilities and financial liabilities due over one year

These balances represent the interest-free loan from the Atlantic Canada Opportunities Agency; for fair value see note 11.

The Company has a £3 million revolving credit facility with Barclays Bank plc; this had not been drawn upon in the financial year.

23. Provisions for dilapidations

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Opening balance	187	150	187	150
Provided for in period	36	37	36	37
At period end	223	187	223	187

The dilapidation provision relates to the rental contracts for two office buildings (included within note 10). These leases expire April 2015 and August 2015. It is likely that by the time this is agreed with the landlord that the majority of this expenditure is expected to be incurred after May 2015. The provision is based on the estimated costs of work to be performed to bring the buildings back to a state of repair and condition, similar to the start of the lease. The lease of the premises in Canada has no repair conditions.

24. Finance income

Finance income may be analysed as follows for the reporting periods presented:

	31 May 2014 £'000	31 May 2013 £'000
Interest income from cash and cash equivalents	63	19

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

25. Taxation on ordinary activities

(a) Analysis of the charge in the period

	31 May 2014 £'000	31 May 2013 £'000
UK corporation tax based on the results for the year	(8)	4
Overseas tax on the results for the period	75	(6)
Deferred tax	45	28
Tax on (loss)/profit on ordinary activities	112	26

(b) Factors affecting tax expenses

The tax assessed on the profit on ordinary activities for the year differs from the effective tax rate of corporation tax 20.3% (2013: 24.1%) as follows:

	31 May 2014 £'000	31 May 2013 £'000
(Loss)/profit on ordinary activities before taxation	(1,642)	1,071
Tax on (loss)/profit on ordinary activities at standard rate	(334)	258
Factors affecting tax expense for the year:		
Overprovision in prior period	(8)	—
Expenses not deductible for tax purposes	116	215
Adjustments for opening deferred tax average rate	(1)	16
Deferred tax provided	46	(1)
Research and development tax credits	(498)	(397)
Exercise of share options	(88)	(65)
Losses to carry forward	879	—
Total amount of tax	112	26

Factors that may affect future tax charges

The Group takes advantage of the enhanced tax deductions for research and development expenditure in the UK and expects to continue to be able to do so. From 1 April 2014 the video games tax relief becomes available and the Group expects that some of its projects will qualify for this relief.

26. Earnings per share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the year. Separate calculations have been performed to a profit taking out the adjusted items in Note 5.

	31 May 2014	31 May 2013
(Loss)/profit attributable to shareholders (£'000)	(1,754)	1,045
Weighted average number of shares	30,479,942	25,014,043
Basic (loss)/earnings per share (pence)	(5.8)	4.2

26. Earnings per share *continued*

The calculation of the diluted earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the year as adjusted for dilutive share options. For May 2014, as the effect of options and convertible loan notes would reduce the loss per share the diluted loss per share is the same as the basic loss per share.

	31 May 2014	31 May 2013
(Loss)/profit attributable to shareholders (£'000)	(1,754)	1,045
Weighted average number of shares	30,479,942	25,495,040
Adjusted basic (loss)/earnings per share (pence)	(5.8)	4.1

The reconciliation of average number of ordinary shares used for basic and diluted earnings per share is as follows:

Weighted average number of ordinary shares	31 May 2014	31 May 2013
Ordinary shares	30,479,942	25,014,043
Under option	—	480,997
Diluted average number of shares	30,479,942	25,495,040

The calculation of the adjusted earnings per share, as calculated by external analysts, is based on the result after tax, adjusted for acquired intangible assets. Separate calculations have been performed to a profit taking out the adjusted items:

	31 May 2014	31 May 2013
Adjusted (loss)/profit attributable to shareholders (£'000)	(948)	1,816
Weighted average number of shares	30,479,942	25,014,043
Adjusted basic (loss)/earnings per share (pence)	(3.0)	7.3
Weighted average number of shares (diluted)	30,479,942	25,495,040
Adjusted diluted earnings per share (pence)	(3.0)	7.1

Adjusted (loss)/profit

	31 May 2014 £'000	31 May 2013 £'000
(Loss)/profit attributable to shareholders	(1,754)	1,045
Share-based compensation	286	416
Funding costs	217	308
Dilapidations provision	36	37
Impairment of intangible asset	276	—
Fair value adjustment	34	—
Investment gain	(21)	—
Set up of Canadian subsidiary	—	10
Adjusted (loss)/profit	(948)	1,816

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

27. Cashflow adjustments and changes in working capital

The following non-cashflow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cashflow:

Group adjustments and changes

Adjustments	31 May 2014 £'000	31 May 2013 £'000
Depreciation, amortisation and impairment	2,027	1,801
Finance income	(63)	(19)
Atari shares	(33)	—
Fair value adjustments	(32)	—
Profit on disposal of fixed assets and available for sale assets	(5)	—
Share-based payment expenses	286	416
Taxation	(70)	26
Foreign exchange	336	(26)
Total adjustments	2,446	2,198
Net changes in working capital:		
Change in inventories	(15)	75
Change in trade and other receivables	(882)	464
Change in trade and other payables	447	1,064
Change in non-current liabilities	37	1,320
Total changes in working capital	(413)	2,923

Company adjustments and changes

Adjustments	31 May 2014 £'000	31 May 2013 £'000
Depreciation, amortisation and impairment	1,981	1,770
Finance income	(57)	(19)
Atari shares	(33)	—
(Profit)/loss on disposal of fixed assets and available for sale assets	(5)	—
Share-based payment expenses	262	403
Taxation	(10)	4
Foreign exchange	326	(34)
Total adjustments	2,464	2,124
Net changes in working capital:		
Change in inventories	(15)	75
Change in trade and other receivables	(1,210)	268
Change in trade and other payables	945	1,014
Change in non-current liabilities	37	1,320
Total changes in working capital	(243)	2,677

28. Related-party transactions

Two shareholders receive ongoing royalties or commission as a percentage of royalty sales for some of the Group's video games launched in prior periods.

	Consolidated year ended				Company year ended			
Connected party	Expense paid 31 May 2014 £'000	Creditor balance 31 May 2014 £'000	Expense paid 31 May 2013 £'000	Creditor balance 31 May 2013 £'000	Expense paid 31 May 2014 £'000	Creditor balance 31 May 2014 £'000	Expense paid 31 May 2013 £'000	Creditor balance 31 May 2013 £'000
Chris Sawyer – royalties	40	53	53	6	40	53	53	6
Marjacq Micro Limited – sales commission	20	27	27	—	27	27	27	—

Professional Practice Automation LLP, controlled by David Braben, received 2,001,573 ordinary shares for the assets of that business including the rights to the *Elite* franchise being a royalty of 10% of the profits in respect of Elite sequels, including *Elite: Dangerous*.

Jonathan Milner subscribed to the convertible loan note and received £3,699 of interest before tax deduction.

29. Acquisition

On 6 May 2014 the Group acquired the assets of Professional Practice Automation LLP, controlled by David Braben, for a non-cash consideration of £5.154 million through the issuance of 2,001,573 ordinary shares. The ruling market price at the date of shareholder approval was 257.5 pence. The transaction has been accounted for as a share-based payment.

The acquisition had the following effect on the Group's assets at the acquisition date:

	£'000
Intangible assets	5,148
Other short-term financial assets	6
Non-cash consideration	5,154

The amounts were considered to be fair value at the time of acquisition.

30. Financial instrument risks

Risk management objectives and policies

The Group is exposed to various risks in relation to financial assets and liabilities. Financial assets and liabilities by category are summarised in note 11. The main types of risks are credit risk, currency risk and liquidity risk.

The Group's risk management is co-ordinated in close co-operation with the Board of Directors and focuses on actively securing the Group's short to medium-term cashflows.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

30.1 Credit risk

The Group's exposure is limited to the carrying amount of financial assets and cash and cash equivalents recognised at the year end date (as summarised in note 11).

The Group's management consider all financial assets, not impaired, for each reporting date are of good credit quality, including those past due. In respect of trade and other receivables the Group is exposed to significant credit risk for a single counterparty.

The Group considers it has minimal credit risk for liquid funds and other short-term financial assets as cash is held with reputable UK and Canadian banks.

At the year end the Group's financial assets are secured by a debenture issued in favour of Barclays Bank plc as part of its agreement to provide a revolving credit facility.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

30. Financial instrument risks *continued*

Risk management objectives and policies *continued*

30.2 Foreign currency risk

The Group's reporting currency is pounds Sterling (GBP). Exposure to currency exchange rates arises where transactions are in a currency other than the functional currency of the entity, primarily Canadian Dollars (CAD), US Dollars (USD) and Euro (EUR).

The Group did not enter into forward exchange contracts to mitigate the exposure to foreign currency risk in the year but is considering in doing so, now that it is in receipt of multi-currency (as above) revenue from its self-published activity and will have associated marketing expenses that are likely to be in similar currencies. The Group does seek to maintain the same level of working capital in both its Canadian subsidiary and in the UK parent, measured in calendar months. The carrying amounts of the Group's Canadian Dollar, US Dollar and Euro denominated monetary assets outside the functional currency of the entity at the reporting date are as follows:

	Consolidated year ended						Company year ended					
	31 May 2014			31 May 2013			31 May 2014			31 May 2013		
	CAD £'000	USD £'000	Euro £'000	CAD £'000	USD £'000	Euro £'000	CAD £'000	USD £'000	Euro £'000	CAD £'000	USD £'000	Euro £'000
Assets	1,994	1,170	38	501	1,218	22	1,379	1,169	38	169	1,218	22

In addition some of the Group's revenue and overhead transactions are completed in a foreign currency. Transaction exposure is reduced through the use of currency bank accounts.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase or decrease in the Sterling exchange rate against all relevant currencies, albeit the main exposures are USD and CAD. An increase in Sterling would lead to a decrease in income and a decrease in equity.

	Consolidated year ended		Company year ended	
	May 2014 £'000	May 2013 £'000	May 2014 £'000	May 2013 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	189	100	189	100
Equity	180	105	164	123

30. Financial instrument risks *continued*

Risk management objectives and policies *continued*

30.3 Liquidity risk analysis

Liquidity risk is the risk arising from the Group not being able to meet its obligations as they fall due. The Group manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in day-to-day business. Net cash requirements determine headroom or any shortfalls over the medium term. This analysis shows if there is a need to use the revolving credit facility, seek external funding or the need for securing finance from its shareholder base.

The Group's financial liabilities have contractual maturities as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
As at 31 May 2014				
Trade and other payables	834	131	102	19
As at 31 May 2013				
Trade and other payables	564	479	79	—

The Company's financial liabilities have contractual maturities as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
As at 31 May 2014				
Trade and other payables	1,258	124	(8)	—
As at 31 May 2013				
Trade and other payables	492	479	79	—

Financial assets used for managing liquidity risk

Cashflows from trade and other receivables are contractually due within six months.

Cash is generally held in accounts with immediate notice. Where surplus cash deposits are identified these are placed in accounts with access terms of no more than three months.

30.4 Interest rate sensitivity

The convertible loan carried a fixed rate of 8% per annum and were converted upon listing to AIM. The Group has no other borrowings through which it is subject to interest rate risk.

The risk associated with interest earned on cash balances is low given low level of interest currently being earned worldwide.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

31. Capital management policies and procedures
The Group's capital management objective is to ensure the Group's ability to continue as a going concern by securing sufficient funding through equity or debt.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the strategic plans of the business over a rolling three-year forecast. In order to maintain or adjust the capital structure and provide funds to support the planned growth, the Group may issue new shares or raise other funds through debt. The Group undertook a public listing on AIM in July 2013 to meet this objective.

The Group had an interest-free loan in Canada of £135k at the end of the financial period.

Capital for the reporting period under review is summarised as follows:

	Consolidated year ended		Company year ended	
	31 May 2014 £'000	31 May 2013 £'000	31 May 2014 £'000	31 May 2013 £'000
Total equity	18,892	8,395	18,417	8,252
Convertible loan	—	1,129	—	1,129
Financial liability	135	—	—	—
Less cash and cash equivalent	(8,612)	(7,155)	(7,997)	(6,819)
	10,415	2,369	10,420	2,562

32. Ultimate control
The Directors consider that David Braben has a majority control of the Group by reference to his shareholding interest.

NOTICE OF MEETING

FRONTIER DEVELOPMENTS PLC
(Incorporated and registered in England and Wales with no. 02892559)

(THE 'COMPANY')

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Frontier Developments plc at 306 Science Park, Milton Road, Cambridge CB4 0WG on Tuesday 14 October 2014 at 9.15 a.m. (London time) for the following purposes:

Ordinary resolutions
To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

Resolution 1. To receive and adopt the financial statements for the year ended 31 May 2014 together with the Reports of the Directors and Auditor thereon.

Resolution 2. To re-appoint Mr David John Walsh as a Director, who has retired by rotation in accordance with Article 70 of the Company's Articles of Association (the '**Articles**') and is therefore required to stand for re-election pursuant to Article 70 of the Articles.

Resolution 3. To re-appoint Dr Jonathan Simon Milner as a Non-Executive Director, who has retired by rotation in accordance with Article 70 of the Company's Articles of Association (the '**Articles**') and is therefore required to stand for re-election pursuant to Article 70 of the Articles.

Resolution 4. To re-appoint Grant Thornton UK LLP as the Company's auditor in accordance with Section 489 of the Companies Act 2006 (the '**Act**') until the conclusion of the next Annual General Meeting.

Resolution 5. To authorise the Directors to determine the auditor's remuneration for the ensuing year.

Resolution 6. That in substitution for all authorities in existence immediately prior to this resolution being passed, the Directors of the Company (the '**Directors**') be and are hereby generally and unconditionally authorised to exercise all powers of the Company, pursuant to Section 551 of the Companies Act 2006 (the '**Act**'), to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £55,639.70, which represents one-third of the nominal value of the Company's issued share capital at the date of this notice, provided that this authority, unless renewed, varied or revoked by the Company in general meeting, shall expire on the earlier of 15 months after the passing of this resolution or the conclusion of the Annual General Meeting of the Company to be held in 2015 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

NOTICE OF MEETING
CONTINUED

Special resolution

To consider and, if thought fit, pass the following resolution as a special resolution:

Resolution 7. **THAT** subject to the passing of resolution 6 above, the Directors be empowered in accordance with Section 570 and Section 571 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred on them pursuant to resolution 6 above as if Section 561(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an open offer or otherwise in favour of ordinary shareholders in proportion (as nearly as possible) to the respective number of shares held, or deemed to be held, by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or problems arising in any territory or with the requirements of any recognised regulatory body or stock exchange in any territory; and

(b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal amount of £16,691.90 which represents one-tenth of the nominal value of the Company's issued share capital as at the date of this notice,

provided that this power shall expire on the earlier of 15 months after the passing of this resolution or the conclusion of the Annual General Meeting of the Company to be held in 2015 save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

By order of the Board

David Gammon
Chairman
3 September 2014
Frontier Developments plc
306 Science Park
Milton Road
Cambridge CB4 0WG

EXPLANATORY NOTES
TO THE NOTICE OF ANNUAL GENERAL MEETING

Notes

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. The proxy need not be a member of the Company but must attend the meeting to represent you.
2. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you will need to complete a separate Form of Proxy in relation to each appointment. To request additional Forms of Proxy, please contact the Company Secretary on 01223-394300 or at Frontier Developments plc, 306 Science Park, Milton Road, Cambridge, CB4 0WG. You will need to state clearly on each Form of Proxy the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares a proxy appointment relates to or specifying a number of shares in excess of those held by the member will result in the proxy appointment being invalid.
3. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them. If you wish to appoint a proxy other than the Chairman, write the full name of your proxy in the box provided in the Form of Proxy.
4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. In the absence of instructions, the person appointed proxy may vote or abstain from voting as he/she thinks fit on the specified resolutions and, unless otherwise instructed, may also vote or abstain from voting on any other matter (including amendments to resolutions) which may properly come before the meeting.
5. In the case of joint holders, the signature of any one of them will suffice but the names of all joint holders should be stated. The vote of the senior who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the votes of the other holders. For this purpose, seniority is determined by the order in which the names stand in the register of members in respect of the joint holding.
6. To be effective, the enclosed Form of Proxy must be duly completed and deposited together with any power of attorney or other authority (if any) under which it is executed (or a duly certified copy of such power or authority) and lodged at the offices of the Company no later than **5 p.m.** on **Friday 10 October 2014** (being not more than 48 hours (excluding non-working days) prior to the time fixed for the meeting).
7. Whether or not you propose to attend the Annual General Meeting, please complete, sign and submit a Form of Proxy to the Company Secretary, Frontier Developments plc, 306 Science Park, Milton Road, Cambridge, CB4 0WG by no later than the time and date specified above.
8. Completion and return of the Form of Proxy will not preclude a shareholder from attending and voting in person at the meeting.
9. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members entered on the register of members of the Company at **5 p.m.** UK time on **Friday 10 October 2014** (being not more than 48 hours (excluding non-working days) prior to the time fixed for the meeting) shall be entitled to attend and vote at the meeting or, if the meeting is adjourned, 5 p.m. UK time on such date being not more than 48 hours (excluding non-working days) prior to the date fixed for the adjourned meeting. Changes to entries on the register of members after such time shall be disregarded in determining the right of any person to attend or vote at the meeting.
10. The following documents will be available for inspection from the date of this notice until the meeting at the Company's registered office and at the meeting convened by this notice:

    (a) register of Directors' share interests; and

    (b) Directors' service contracts and letters of appointment (as applicable).
11. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member.

ADVISORS AND COMPANY INFORMATION

Company Secretary and CFO
Mr N R Armstrong

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306 Science Park
Milton Road
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Website
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London EC2V 7QR

Joint broker
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Auditor
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Cambridge CB4 0FY

Legal advisors to the Company
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Registrars
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United Kingdom

Registered number
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consultancy, design and production by
designportfolio
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