RECORD REVENUE AND PROFIT WHILE IN TRANSITION

FRONTIER DEVELOPMENTS PLC

ANNUAL REPORT AND ACCOUNTS 2015

FRONTIER IS FOCUSED ON BUILDING WORLD-CLASS FRANCHISES AS THE GAMES INDUSTRY TRANSITIONS TO THE WORLD'S PREMIERE FORM OF ENTERTAINMENT.

Frontier has a proven track record of progressive development in video games spanning several decades of rapid technological change. Its projects cross a wide variety of genres and platforms and are linked by an underlying drive for innovation, timely delivery and, above all, quality, enabled by its COBRA technology.

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HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

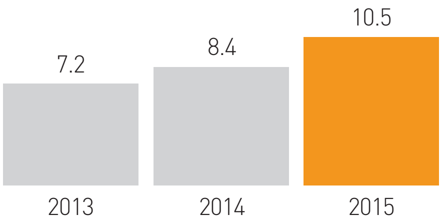
- Strategic step: The first stage of transition was successfully completed as *Elite Dangerous* launched. At the end of August 2015 it had sold approximately 825,000 paid units (excluding free 'demo' units) and generated 84% of Group revenues via a self-publishing business model including associated merchandise.
- Self-publishing contributed significantly to record revenues, up 139% to £22.8 million, a cash increase of £2.1 million to £10.5 million, EBITDA up 1,790% to £6.1 million and an adjusted operating profit up 171% to £2.5 million whilst still in transition.
- The Group expanded the reach of *Elite Dangerous* through subsequent releases on Mac and Xbox One platforms in addition to PC, and via the Steam and Xbox Live distribution channels in addition to the Group's own online store. The Group's COBRA technology facilitated the significant technological and logistical achievement of simultaneous multi-platform and multi-channel releases whilst players all share the same server environment.
- All remaining work-for-hire projects were completed, as *Tales from Deep Space* with Amazon and *Screamride* with Microsoft were released.
- The organisation was restructured for fully self-published operations by centralising development in the Group's Cambridge headquarters and changing the staffing mix via targeted recruitment and redundancy at a cost of £0.3 million.
- The Group started the development of its second self-published franchise, *Planet Coaster*, which was also publicly announced.

FINANCIAL HIGHLIGHTS

NET CASH BALANCE (£M)

£10.5M

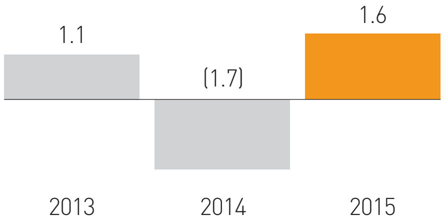
+24%



OPERATING RESULT (£M)

£1.6M

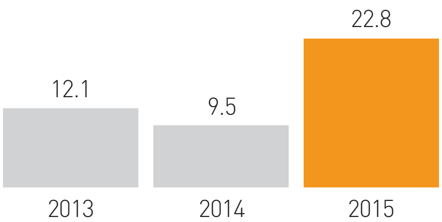
+192%



REVENUE (£M)

£22.8M

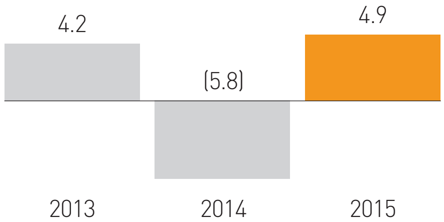
+139%



EPS / (LPS) (P)

4.9P

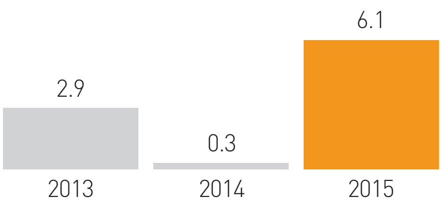
+185%



EBITDA (£M)

£6.1M

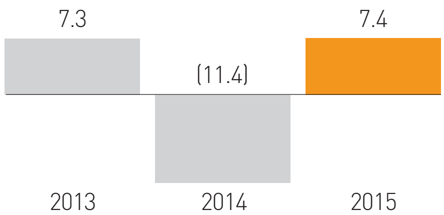
+1,790%



ADJUSTED EPS / (LPS)** (P)

7.4P

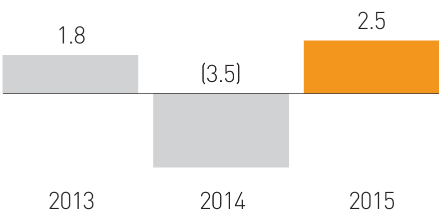
+165%



ADJUSTED OPERATING PROFIT* (£M)

£2.5M

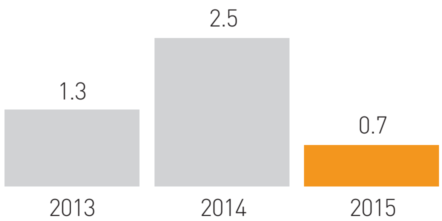
+171%



DEFERRED INCOME (£M)

£0.7M

-70%



FIND OUT MORE ONLINE

at www.frontier.co.uk

* See page 18 for reconciliation to reported revenue and operating result on income statement.
** See note 26.

CHAIRMAN'S STATEMENT

"THIS HAS BEEN A LANDMARK YEAR FOR OUR COMPANY. TWO YEARS AGO WE EMBARKED ON A TRANSITION PLAN. I AM VERY PLEASED TO REPORT THAT THE FIRST STAGE OF THAT TRANSITION IS NOW COMPLETE."

This has been a landmark year for our Company. Two years ago we embarked on a transition plan. I am very pleased to report that the first stage of that transition is now complete. Last year 81% of our revenue was derived from two clients on whose behalf we developed games. This financial year 84% of our sales (including associated merchandise) have come from the consumers who bought our self-published game *Elite Dangerous*. In 2016 we expect 100% of our revenue to be booked from consumers buying our self-published games. This transition has involved significant internal re-organisation as well as adapting from a B2B to B2C model. I take this opportunity to thank all our employees for their dedication, long hours and hard work. In 2015 we also released the last of our games developed for third parties: *Tales from Deep Space* on behalf of Amazon and *Screamride* for Microsoft. We thank these customers and continue to maintain a close relationship with them as they play key parts in the distribution of our self-published games.

2015 above all else has been the year of *Elite Dangerous*. We have built a virtual galaxy with 400 billion star systems in which players can engage with each other in combat, explore the stars and their planets, mine resources and trade them. The second step in our transition is to take the success of *Elite Dangerous* to become a multi-franchise game publisher. We recently announced that our second franchise, *Planet Coaster*, is being built on our knowledge and long experience of roller coaster games. We expect to reveal details of a third franchise once *Planet Coaster* is released. This will keep our creative teams busy for many years ahead.

PERCENTAGE OF OUR TOTAL REVENUE DERIVED FROM SELF-PUBLISHED GAMES:

84%

CUSTOMERS WHO HAVE BOUGHT *ELITE DANGEROUS*:

825,000+

EXPECTED TOTAL REVENUE WE EXPECT FROM CUSTOMERS BUYING OUR SELF-PUBLISHED GAMES IN 2016:

100%

READ MORE ABOUT OUR BUSINESS:

P08

WORK-FOR-HIRE BUSINESS SUCCESSFULLY COMPLETED

The Group successfully completed its outstanding work-for-hire commitments during the year, developing *Screamride* on Xbox One for Microsoft Game Studios and *Tales from Deep Space* on behalf of Amazon.

As well as developing franchises, the core of our capability must focus on remaining at the forefront of game development technology. Our COBRA engine, which enables us to release games on many platforms, remains an important effort. *Elite Dangerous* was one of the first games to showcase the possibilities of Virtual Reality (VR) and we intend to stay in touch with hardware manufacturers of VR systems such as Facebook's Oculus Rift, Valve and HTC's Vive, Microsoft's HoloLens and Sony's Morpheus as 3D virtual reality becomes more commonplace. *Elite Dangerous* has now been released on PC, Mac and Xbox One, and we will continue to invest in releases to achieve the maximum customer reach.

In last year's statement I said that "In future years, starting with 2015, we will see the harvest of the seeds we have sown." We have delivered a transformation in our business model, achieved a record level of revenue, sold our first developed game to 825,000 consumers (the majority through our own web store), re-engineered our development capability (from third party published to self-published) and announced a net profit in the financial year. Looking ahead I see a multi-franchise game developer / publisher with its games being distributed on the most modern and best hardware platforms, achieving sustainable returns for our shareholders. Activision Blizzard Inc. and Electronic Arts Inc. are good exemplars as to where we are heading.

Our Company could not achieve its success without the hard work, creative talent, dedication and perspiration from our exceptional employees. I take this opportunity to thank them on behalf of all shareholders. Equally, our transition would not have been possible without the financial support of our shareholders and backers. I take this opportunity to thank them on behalf of all employees.

DAVID GAMMON
Chairman
8 September 2015

MARKET OVERVIEW

THE VIDEO GAMES SECTOR HAS CONTINUED TO GROW SIGNIFICANTLY OVER THE LAST DECADE. THE TARGET AUDIENCE WITHIN THE VIDEO GAMES SECTOR HAS EXTENDED FROM THE TRADITIONAL YOUNG MALE FOCUS TO A MORE BROAD ONE, WITH FEMALE PLAYERS OUTNUMBERING MEN IN SOME AGE RANGES. PLATFORMS ARE BROADLY SEGMENTED INTO I) PC, II) CONSOLE AND III) SMARTPHONE / TABLET.

In 2004, the games industry as a whole generated revenue of US$25 billion. An average of available estimates for 2015 values the market at US$82 billion revenue and estimates for 2017 range as high as US$103 billion.[1,2,3] Spending in each of the three platform segments is approximately equal,[1,2,3] each segment having a one-third share of the total, or approximately US$28 billion each, annually.

The video games industry is made up of developers, publishers, platform holders (such as Sony, Microsoft, Nintendo and Apple), distributors, retailers and secondary service providers.

The distinction between developers and publishers has become blurred, as the route to market is now open to developers such as Frontier directly self-publishing in the digital space.

DIGITAL DISTRIBUTION

In video games and other industries like film, music and TV, direct digital distribution of products to customers is rapidly becoming ubiquitous as physical retail channels recede.

Major platform holders are still key as they control access to their platform audiences. Devices now have their own associated App Store ecosystems which allow discovery of content, direct digital download to the device and integrated billing mechanisms; for example Apple's App Store, Microsoft's Xbox Live and Windows Store, Google Play, Amazon Appstore, Nintendo's eShop and Sony's Playstation Network.

Digital distribution share vs. physical for the major platform segments in 2015 is estimated as:[1,2,3,12]

SMARTPHONE AND TABLET:

100%

PC:

86%

CONSOLE:

50%

This industry move towards digital distribution has removed significant barriers to entry for developers like Frontier to access the market directly on a similar footing to traditional game publishers, something that was not feasible during the physical distribution era.

PC SEGMENT

PC performance continues to improve incrementally and PC as a gaming platform has had a resurgence. PCs offer an open platform and lead the market on processing performance. The low barriers to entry and performance on offer to developers act to stimulate a wide variety of gaming experiences and the highest potential visual quality, as Frontier's support for 4K and higher resolutions in *Elite Dangerous* illustrates.

The open nature of the PC platform also makes it amenable to using a variety of sophisticated third party peripherals to enhance the gameplay experience, such as *Elite Dangerous*' support for joystick controllers. For this reason also we are seeing the re-birth of Virtual Reality (VR) / Head Mounted Displays, leading on the PC platform via Oculus Rift and the HTC Vive.

The PC segment has a high concentration of the core gaming audience at whom Frontier's current franchises are targeted.

Valuable franchises continue to be created in the PC segment. In September 2014 Microsoft announced the acquisition of Mojang, the Swedish creators of *Minecraft* for US$2.5 billion.[4] Oculus, the crowd funded pioneer of modern VR, was bought by Facebook in a US$2 billion deal[9] in July 2014.

CONSOLE SEGMENT

The key players in the console world have shipped their respective new generation of consoles, generally providing a multimedia centre with Cloud and streaming technologies, and typically offering a more holistic entertainment experience than their previous incarnations. The market for the new console generation is now starting to mature as we approach the second anniversary of their launch.

This new console generation is also designed to be suited to digital distribution of content, unlike the previous generation – many instances of which were not fitted with enough local storage. The new generation facilitates wide digital distribution as the new generation takes the place of the old one.

Access to the console market is gated by the owners of the different platforms, and together they have an established audience that contains the second significant concentration of the core gaming audience at whom Frontier's current franchises are targeted.

Some major video game franchise console releases have eclipsed major movie openings in revenue terms. Activision's *Call of Duty: Black Ops II* reached US$1 billion in 15 days – faster than the top-selling movie "Avatar"[5] – and grossed over US$500 million within 24 hours of going on sale,[6] beating the previous record (also held by a game). This performance would have positioned it at the top of the list for the highest-ever opening weekend if it were a movie.[7]

MARKET OVERVIEW CONTINUED

SMARTPHONE AND TABLET SEGMENT

Smartphones and tablets are catching up in performance terms with video game consoles,[8] helped by their annual product life cycles compared to the typical six-year life cycle of a dedicated games console. The smartphone and tablet games market is composed of hundreds of millions of mainly casual players, in contrast to the concentrations of core gamers on the other platforms. The smartphone and tablet audience therefore generally places a correspondingly lower value on games, predominantly choosing to play relatively low priced or free-to-play games.

Viral appeal therefore plays a much larger part in a game's success than on PC or console, but the sector has also seen significant investment for those who managed to win through against the vast numbers of games on offer. In October 2013, Supercell, creator of *Clash of Clans*, sold 51% of itself to Japan's SoftBank and GungHo in a deal valuing the company at US$3 billion.[10] The maker of *Candy Crush Saga*, King, undertook an Initial Public Offering on the New York Stock Exchange in March 2014 valuing the company at US$7 billion.[11]

Although not key to the strategic transition, Frontier retains a presence in the market with games such as *LostWinds* and *Coaster Crazy*. In August 2015 Frontier published *RollerCoaster Tycoon 3* on Apple's platform.

SUCCESSFUL GAME FRANCHISES

In each of the three main gaming market segments there is evidence of multi-billion dollar values being placed on successful franchises.

Despite the ongoing changes in distribution model in the industry, there is enough publicly available data for PC and console to analyse top video game franchises.

A selection of five successful, well-managed PC and console franchises are plotted on the page opposite. Ignoring the occasional upturn or downturn in individual franchises, they exhibit similar annual revenue profiles over their lifecycles, irrespective of the subject matter or revenue model for the franchise. The average curve (black line) is straightforward to model.

Microsoft paid US$2.5 billion for the *Minecraft* franchise. By plotting historical public information and projecting future revenues using the model 'franchise lifecycle curve', we can use a standard discounted cashflow valuation (with a 9% discount). This results in a franchise value at January 2015 of approximately US$2.7 billion, supporting Microsoft's purchase price.

A portfolio of three or more successful franchises supports very significant market capitalisations of publicly traded publishers such as Electronic Arts (US$19.8 billion*) and Activision Blizzard (US$20.4 billion*) in the USA.

FRONTIER'S FOCUS

Frontier's decisions to invest in *Elite Dangerous* and *Planet Coaster* are the result of the current focus on leveraging its proven strengths to build strong game franchises. Frontier's online store and COBRA exploitation are considered to be long-term growth opportunities.

Frontier's current key differentiators are its franchise IP (such as Elite) and unique expertise in certain genres of game (such as 'Tycoon' games), its COBRA game development technology that facilitates unique core gaming experiences across multiple platforms, and its ability to deliver quality games for specific target audiences on both the PC and console platforms.

It is therefore well placed to digitally self-publish unique games in their genre, using its IP, expertise and COBRA technology to target the core gamer audience in both the PC and console market segments. Together these two segments have a combined estimated revenue value of $56 billion in 2015.[1,2,3]

The smartphone and tablet segment will be considered for companion apps in its franchises that are likely to have increasing functionality over time, as Frontier determines there is both the device performance and market potential to allow it to leverage its differentiators in that segment.

* Market Capitalisation values as at 31 August 2015.

LONG-TERM TRENDS

The long-term trends (5–10 years or more from now) suggest the overall entertainment industry converging as lines between the media become ever more blurred and current early-stage video-game sub-segments such as eSports and Virtual Reality[1] grow substantially.

Elite Dangerous has already established Frontier as a leader in Virtual Reality, and the new Close Quarter Combat Championship feature for *Elite Dangerous* on PC, Mac and Xbox One provides a good environment for eSports enthusiasts within the franchise.

We already see the beginnings of interactive TV (more than just 'pressing the red button'), such as Microsoft's '1 vs 100' in the USA and the social aspects of the Microsoft and ESPN collaborations via Xbox Live, allowing the group watching of sport even when the group is widely distributed. In parallel, the digital distribution of non-interactive content by Netflix, Microsoft, Amazon, Apple, the BBC and others is already widespread.

The expertise in interactivity lies largely within what is currently the games industry, so organisations with such expertise will be well placed for significant value in this interactive, converged future.

AMOUNT PAID BY MICROSOFT FOR THE *MINECRAFT* FRANCHISE

US$2.5B

APPROXIMATE RESULTING FRANCHISE VALUE

US$2.7B

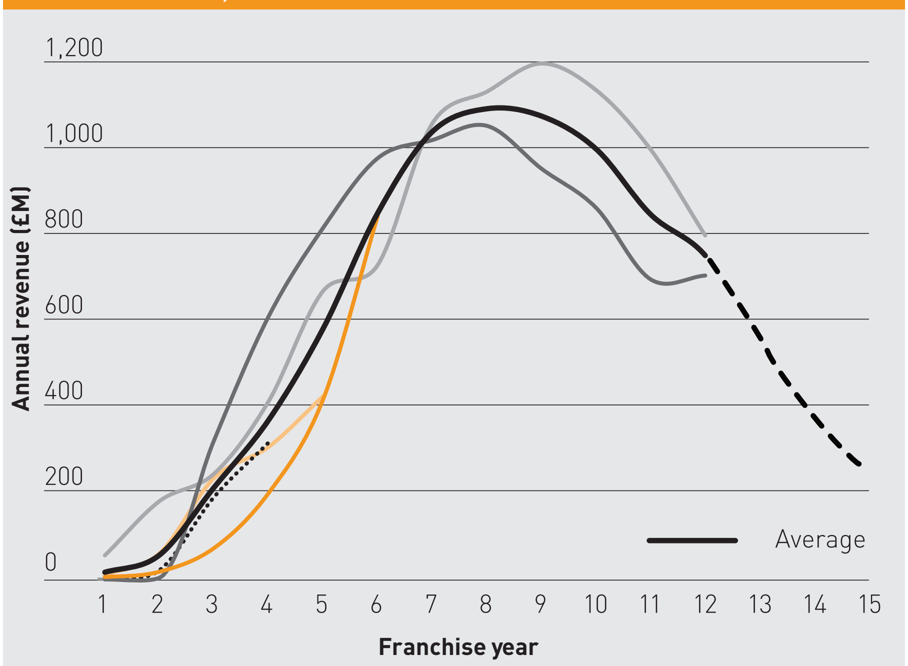
ELECTRONIC ARTS MARKET CAPITALISATION

US$19.8B

ACTIVISION BLIZZARD MARKET CAPITALISATION

US$20.4B

FIVE SUCCESSFUL, WELL-MANAGED PC AND CONSOLE FRANCHISE EXAMPLES



1. Global Games Market Report 2015, SuperData Research
2. Newzoo http://www.newzoo.com/insights/global-games-market-will-reach-102-9-billion-2017-2/
3. Global entertainment and media outlook 2015–2019, PwC
4. Engadget http://www.engadget.com/2014/09/19/microsoft-buying-minecraft-explanation/
5. Bloomberg http://www.bloomberg.com/
6. vg247 http://www.vg247.com/
7. Boxofficemojo http://www.boxofficemojo.com/
8. Tomshardware http://www.tomshardware.com/
9. theguardian http://www.theguardian.com/technology/2014/jul/22/facebook-oculus-rift-acquisition-virtual-reality
10. Pando http://pando.com/2013/10/15/what-supercells-1-5b-deal-means-for-mobile-global-gaming-and-finland/
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12. CNBC http://www.cnbc.com/2014/06/07/new-consoles-dont-spark-retail-run-on-game-sales.html

CHIEF EXECUTIVE'S STATEMENT

"WITH OUR FIRST FRANCHISE ABOUT TO ENTER ITS SECOND SEASON, AND THE ANNOUNCEMENT OF OUR SECOND, *PLANET COASTER*, FRONTIER IS IN A VERY STRONG POSITION, AND VERY WELL PLACED FOR AN EXCITING FUTURE AND FURTHER REVENUE GROWTH."

We are delighted to have returned to profit this early in our transition. We raised funds during the Kickstarter crowd-funding at pre-IPO and IPO in order to fund the transition but, with hindsight, the process has been more successful and more cash generative than anticipated.

We successfully launched *Elite Dangerous* via our own web-based store and have continued to support it with regular significant expansions. We reached new audiences for the game by supporting new distribution channels and platforms with Steam, Mac and Xbox One.

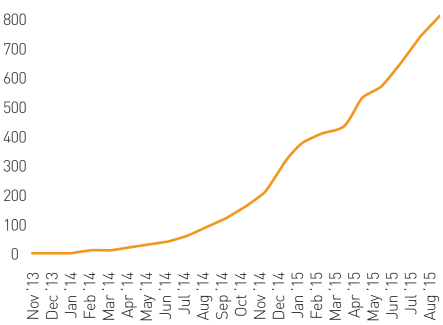
As we completed our obligations to third party publishers, the success of *Elite Dangerous* allowed us to start investing in a second self-published franchise in anticipation of higher future returns. *Planet Coaster* is a game in the 'Tycoon' genre; a teaser trailer was launched during the E3 trade show in June. *Planet Coaster* will launch in 2016 and will allow the Group to make use of its proven expertise in the 'Tycoon' genre, as *Elite Dangerous* has in its genre.

The significantly higher net receipts from self-publishing *Elite Dangerous* compared to our previous work-for-hire business model enabled Frontier to more than double headline revenue for the year to £22.8 million, and the net cash balance increased by £2.1 million to £10.5 million at 31 May 2015. This allowed us to generate a pre tax profit of £1.6 million (EBITDA of £6.1 million) whilst still in a planned transition.

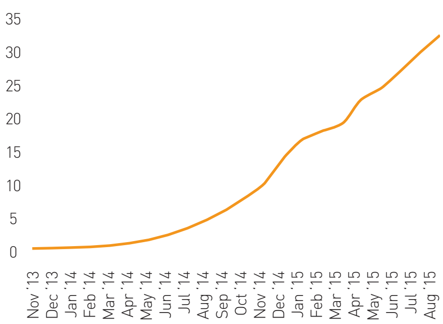
Just over half of our developers are working on *Elite Dangerous*, and the rest are now working on *Planet Coaster*. The second stage of our transition will be complete in late 2016 when *Planet Coaster* is planned to ship.

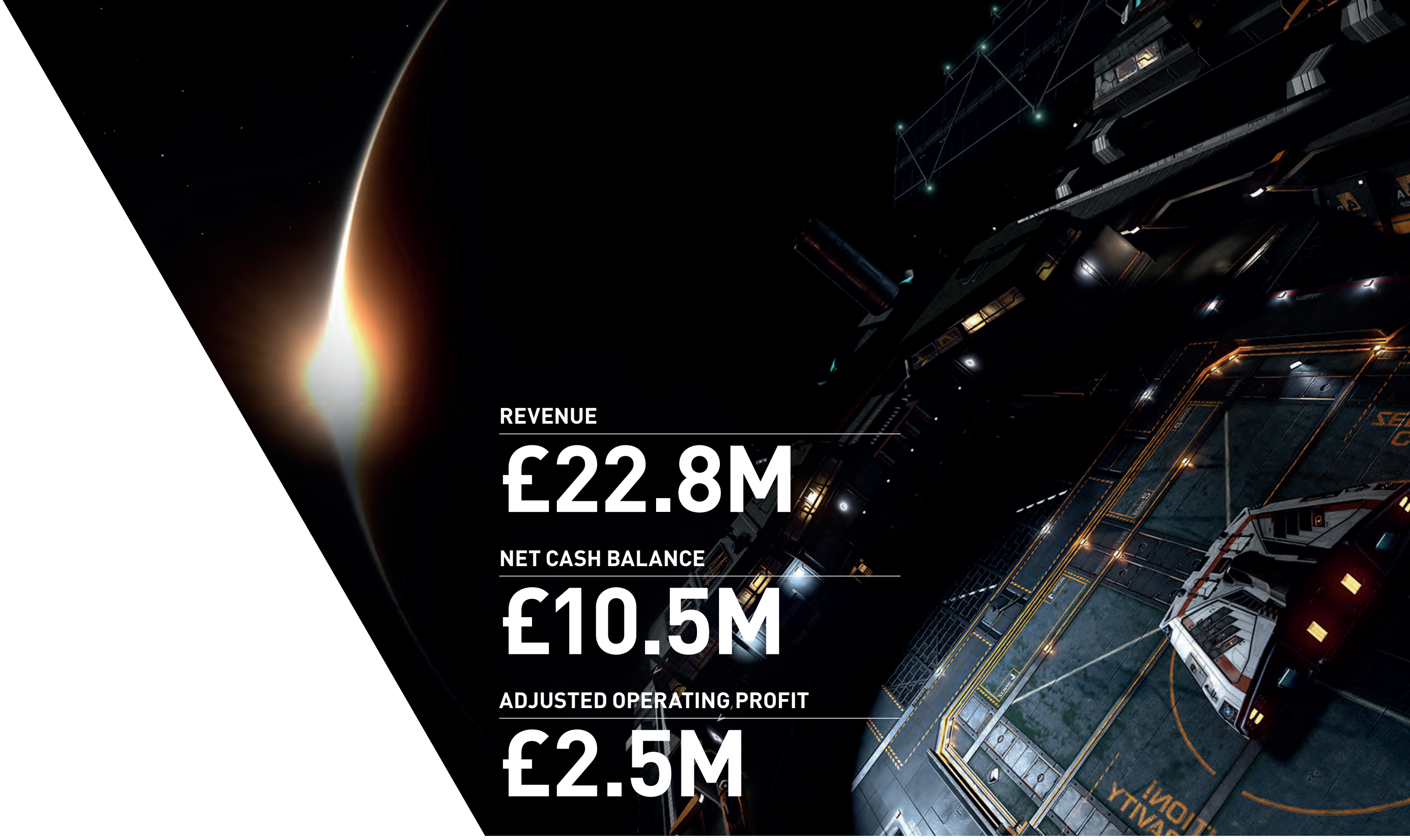
Sales of our first major franchise, *Elite Dangerous*, are tracking well. Sales figures of *Elite Dangerous* have already been made public over the year, and as of the end of August 2015 stood at approximately 825,000 unit sales. A summary of the cumulative paid-for units and the gross revenue each month up to the end of August 2015 are plotted below.

CUMULATIVE *ELITE DANGEROUS* PAID UNIT SALES TO AUGUST 2015 ('000)



CUMULATIVE *ELITE DANGEROUS* REVENUE TO AUGUST 2015 (£M)





REVENUE
£22.8M

NET CASH BALANCE
£10.5M

ADJUSTED OPERATING PROFIT
£2.5M

OPERATING IN LINE WITH OUR FIVE STRATEGIC PILLARS

1. **Transition to self-publishing**
2. **Repeatable model over multiple franchises**
3. ***Elite Dangerous***
4. ***Planet Coaster***
5. **COBRA**

In addition to our major self-published franchises, we released a port of our classic PC game *RollerCoaster Tycoon 3* for iOS (Apple) devices on 13 August 2015.

Our work for external publishing partners in the financial year included Amazon Game Studios' release of *Tales from Deep Space* for Kindle Fire devices, and subsequently on iOS. We also worked for Microsoft Game Studios on the release of *Screamride* for Xbox One, digitally available via Xbox Live in March.

Overall we have had a great year. This is down to the hard work of our staff, and the great support from our many fans around the world.

DAVID BRABEN OBE
Founder and CEO
8 September 2015

OUTLOOK AND CURRENT TRADING UPDATE

Following the successful completion of the first stage of our transition the Board expects the Group to be well placed as it develops its IP into world class franchises.

Frontier is on course to launch the Xbox One version of *Elite Dangerous* in September 2015 and the follow up season of expansions, *Elite Dangerous: Horizons*, in the calendar Q4 of 2015. *Elite Dangerous: Horizons* is a season of major gameplay expansions for *Elite Dangerous*, beginning with Planetary Landings on 1:1 scale worlds across the *Elite Dangerous* galaxy. *Elite Dangerous: Horizons* will continue to introduce major new features and gameplay as the season continues into 2016, enriching the *Elite Dangerous* experience with new activities and new ways to play.

The Board expects further strong revenue growth in the current financial year. The timing of the release of *Elite Dangerous: Horizons*, expected to be around our half year end, will likely have a significant impact on the half-on-half phasing of the current year's revenues.

As planned, Frontier has started development on *Planet Coaster*, set for release in the calendar Q4 of 2016 as a second franchise.

The launch of *Planet Coaster* will represent the end of the next stage of our transition, delivering a fully self-published revenue pipeline that maximises returns from the use of our established expertise and pool of IP.

We will also continue to identify further franchises that would make full use of our established expertise and IP in order to further build our revenue pipeline for the longer term.

Up to 31 August 2015 the Group had sold approximately 825,000 units of *Elite Dangerous*. At the Gamescom show we announced *Elite Dangerous: Horizons*, a new paid-for season of expansions for the game, to a positive critical reception. Net cash balance at 31 August was approximately £10.7 million. An early video of Frontier's second franchise *Planet Coaster* was shown for the first time at E3's inaugural PC Gaming Show. The game is set to be publicly released in Q4 of 2016 and is available now on a pre-order basis.

STRATEGIC PRIORITIES AND KEY PERFORMANCE INDICATORS

FRONTIER'S STRATEGY IS TO BUILD UP KEY FRANCHISES OVER TIME.

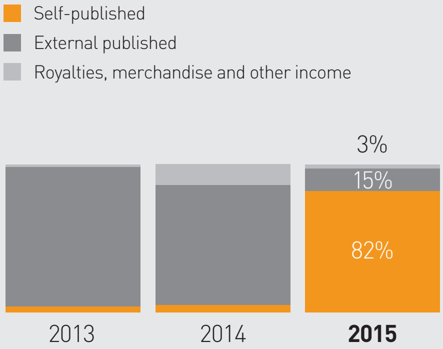
1 Transition to self-publishing

The first stage of Frontier's transition to self-publishing is complete. *Elite Dangerous*, Frontier's first major franchise, is in the market. It is earning significantly more revenue with higher margins from unit sales than by working for third party publishing partners, despite the development process being the same.

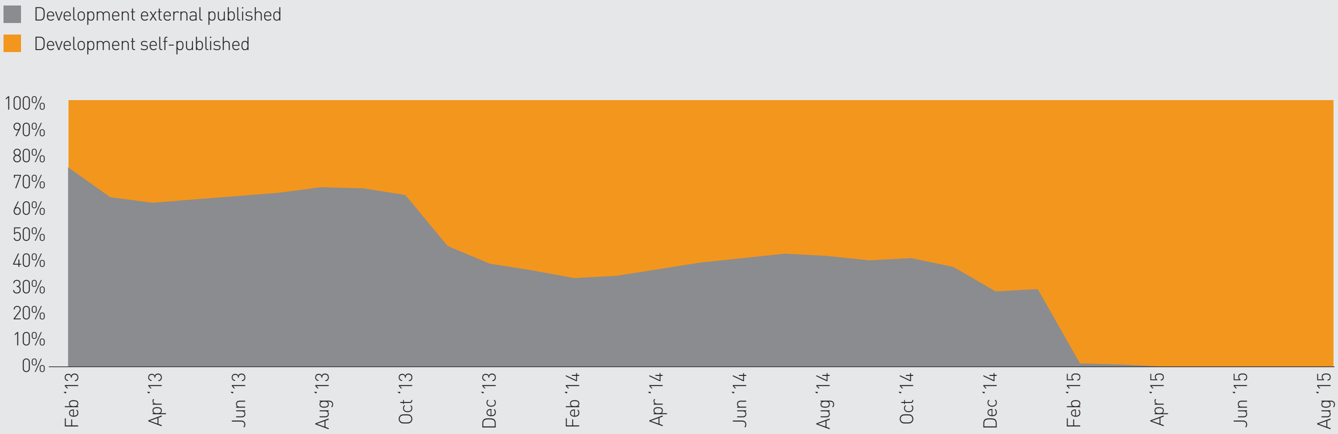
Having successfully completed its obligations to third party publishers during the financial year, Frontier used the staff who had been allocated to work-for-hire contracts to start investment in the creation of a second major self-published franchise in anticipation of higher returns in the longer term. The game is a strategy / simulation genre, rollercoaster-based title – *Planet Coaster* – due for release in Q4 2016.

Since completion of external publisher contract work with Amazon Game Studios, just over half of Frontier's developers have been working on *Elite Dangerous*, with the rest working on *Planet Coaster*. The second stage of Frontier's transition will be complete in late 2016 when *Planet Coaster* is planned to ship.

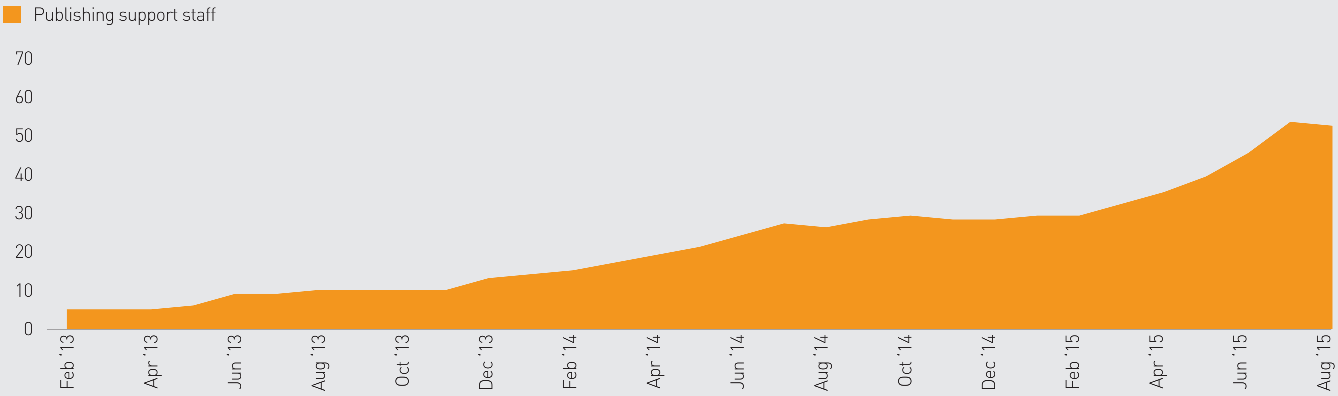
TRANSITION OF REVENUE MIX:
% of revenue by operating segment



STAFF SPLIT ON DEVELOPMENT TEAMS:
for external published and self-published work



GROWTH OF STAFF:
focusing on traditional publishing tasks



2 Repeatable model over multiple franchises

Frontier's strategy is to build up key franchises over time. Frontier is following the pattern of successful franchises in the games industry by planning for their growth over many years, releasing new content on new platforms to extend addressable markets, while working to build a supportive fan base.

Frontier has used this model for *Elite Dangerous* and is now repeating this for *Planet Coaster*, which Frontier expects to follow a similar profile over time.

The Company plans to begin a third franchise around the time of *Planet Coaster*'s launch, using the same philosophy.

3 *Elite Dangerous*

In addition to the launch of *Elite Dangerous* itself, Frontier has released three 'expansions' for *Elite Dangerous*, called 'Community Goals', 'Wings' and 'Powerplay', with two further expansions to come in calendar year 2015. This represents a 'season' of content, with each expansion creating new interest in the game.

Frontier has also reached new audiences through the Valve's Steam distribution channel, and online market place, a community of 25 million gamers and added support for new platforms with Apple Mac and Microsoft Xbox One.

Subsequent to the end of the financial year, Frontier announced *Elite Dangerous: Horizons*. This is a second 'season' of major gameplay expansions for *Elite Dangerous* on PC, announced during the Gamescom games show in Cologne, Germany.

This announcement made clear Frontier's plans for continued monetisation of the *Elite Dangerous* franchise. Additional expansions to the game will continue to be released in paid seasons – all players will fly together in the same galaxy but access different features depending on which season they have purchased.

4 *Planet Coaster*

The Group has a very successful track record in developing games of the strategy / simulation genre, for example *RollerCoaster Tycoon 3* and *Zoo Tycoon* for PC and Xbox One respectively.

Originally titled '*Coaster Park Tycoon*', *Planet Coaster* was renamed to help communicate the fresh approach the game will bring to the strategy / simulation genre and differentiate it from a plethora of games in the genre with the word 'Tycoon' in their title, using the sub-title 'Simulation Evolved'.

'Tycoon' has latterly become synonymous with a perception of low-quality in the minds of today's consumers.

A trailer video for *Planet Coaster* premiered at the PC Gaming Show held during the E3 tradeshow in Los Angeles in June 2015. This was well received and Frontier believes it was successful in both raising awareness of the new game and establishing its position in the market as a modern-day continuation of the Group's previous work on high-quality strategy / simulation titles.

5 COBRA

Elite Dangerous was created using the latest evolution of the Group's COBRA technology and tools. It included several ground-breaking features such as a novel hybrid server architecture, which offers significant cost advantages over other approaches and an ongoing player-driven story.

Additionally, the Group has used the cross-platform nature of COBRA to release *Elite Dangerous* on new platforms such as Apple's OS X operating system for Macintosh computers (the first time this platform has been supported by COBRA) and Microsoft Xbox One.

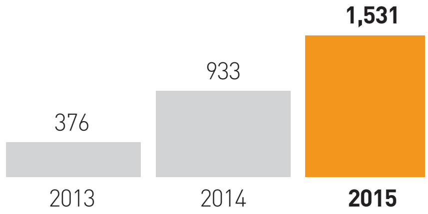
The Group's support of additional distribution channels for *Elite Dangerous* from Valve and Microsoft was facilitated by linking its own online store with Steam and Xbox Live, two of the leading gaming digital eco-systems.

COBRA technology facilitated the significant technological and logistical achievement of simultaneous multi-platform and multi-channel releases whilst players all share the same server environment.

RELEVANT KPIS

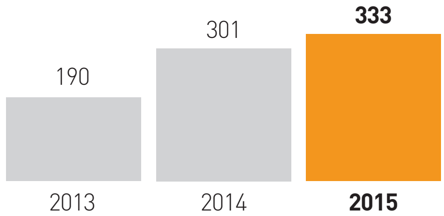
INVESTMENT IN SELF-PUBLISHING:
Man months

1,531



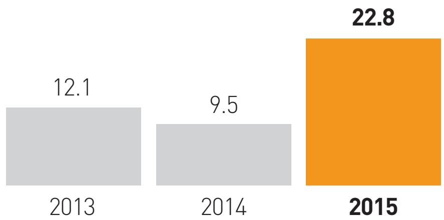
INVESTMENT IN TECHNOLOGY:
Man months

333



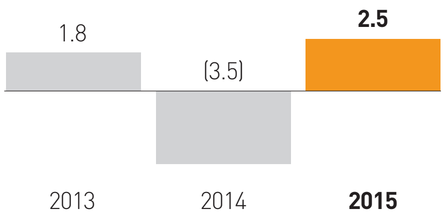
MEASURE OF GROWTH:
Revenue

£22.8M



MEASURE OF PROFITABILITY:
Adjusted Operating Profit*

£2.5M



* See page 18 for reconciliation to income statement.

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 financial risks for the Group are set out below:

Description	Mitigation	Relative change over period
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.	↑
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.	–
Cybersecurity A breach of security could take many forms, and could significantly impact the business and impair our self-publishing plans. Exposure includes that of failure of security at our partners including Amazon, Valve and Microsoft.	We review our security provisions regularly and believe them to be in accordance with industry best practices.	–
Strategic focus The Group is in the process of transitioning from entirely work-for-hire revenue from a small number of publisher customers to generating its revenue entirely from consumers via a small number of self-published franchises based on its own IP. Inherently such a strategic shift of focus creates execution risks, whilst perhaps reducing financial risk based on a small customer base.	The Group has seen a significant shift in revenue mix towards self-published sales in the financial year. This was driven by the successful launch of *Elite Dangerous*, which is the first important and successful step in the Group's transition to fully self- publishing its output. The Group remains confident that it can use its experience and expertise to continue to deliver on the product, technology, commercial and operational aspects that support its strategy.	↓
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) and Euros (EUR).	Currency risk is managed by ensuring, where possible, that financial revenues and operating costs are denominated in GBP. However, as anticipated, the Group has expanded its revenue sources and there has been a subsequent increase in revenue from non-GBP currencies. The Group has entered into forward exchange contracts to mitigate the exposure to foreign currency risk as the Group's currency transactions are now considered to be significant enough to warrant this. The intention is to retain more than a 50% hedge against expected receipts over a rolling 12 month period. The currency exposure is monitored daily.	↑

↑ Increase
↓ Decrease
— No change

Description	Mitigation	Relative change over period
Growth management The Group's future success will depend on its ability to manage and fund its anticipated expansion. This now includes the management of overseas-based subsidiaries and may include acquisitions. Such expansion and investment is expected to place demands on management, support functions and working capital. If the Group is unable to manage and fund 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 ceased development in its Halifax, Nova Scotia office during the financial year, deciding to focus development through its Cambridge-based teams that contain significant project-specific expertise relevant to the Group's current developments. The Group continues to seek to strengthen its Non-Executive Director base and has appointed key advisors with experience in the sector to ensure these risks are managed objectively. The Group prudently manages its liquidity by monitoring forecast cash inflows and outflows both in the short and medium terms, as well as its long-term investment needs and opportunities. The Group has access to its £1 million revolving credit facility.	↓
Market disruption The Group operates in a fast moving industry where competitive products, larger and better capitalised competitors, new 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 seek to make our processes and business decisions 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. This includes balances within trade and other receivables from distributors which can be up to two months of sales from the relevant platform.	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 28). 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 who distribute product on the Group's behalf; however, given the identity of each and their financial performance, we believe the likelihood of such risk to be low.	—

FINANCIAL REVIEW

DAVID WALSH
Chief Operations Officer

NEIL ARMSTRONG
Company Secretary and Chief Finance Officer

"IN THE FINANCIAL YEAR ENDED 31 MAY 2015, FRONTIER DEVELOPMENTS DELIVERED THE FIRST KEY MILESTONE WITHIN A PLANNED TRANSITIONAL PERIOD AS IT SELF-PUBLISHED ITS FIRST MAJOR TITLE, *ELITE DANGEROUS*, ON PC AND MAC PLATFORMS."

TRADING RESULTS

In the financial year ended 31 May 2015, Frontier Developments delivered the first key milestone within a planned transitional period as it self-published its first major title, *Elite Dangerous*, on PC and Mac platforms.

The Group's operating cashflow was £7.3 million (2014: £0.3 million) and its investment in non-current assets was £4.6 million (2014: £4.4 million), consequently net cash balance rose to £10.5 million from £8.4 million, and the Group was able to pay back early the interest free loan from the Atlantic Canada Opportunities Agency. The Group is once again debt free. Revenue more than doubled to £22.8 million from £9.5 million, and EBITDA rose to £6.1 million from £0.3 million. The Group delivered an operating profit of £1.6 million compared with an operating loss of £1.7 million in the prior year. Adjusted operating profit (being revenue less non-cash expenses) was £2.5 million (2014: loss £3.5 million).

Basic earnings per share were 4.9 versus 5.8 pence loss per share in the prior year, and on an adjusted basis (this measure, set out in note 5, excludes amortisation, depreciation and R&D capitalised within the measure) the basic earnings per share was 7.4 pence, compared to a loss per share of 11.4 pence.

The Group has made cashflow the primary financial statement as the Board believes it represents a clearer picture of the Group's performance. Frontier has also fine-tuned its key financial measures in conjunction with the business model transition: measuring revenue on an unadjusted basis as the differences to underlying revenue have become less material.

The Group has presented adjusted operating profit as its preferred measure of profitability to provide an improved insight into performance over the transition period; adjusted operating profit seeks to add back funding related and all non cash overheads so as to measure the surplus resources available after re-investment in development costs of its self-publishing and tools and technology work.

GROUP TRADING PERFORMANCE IN TRANSITION

The Group continued the planned transitional investment phase to develop and launch *Elite Dangerous* in the year on both PC and Mac platforms, this being its first major large budget self-published title, together with associated technology development.

The Group is in transition from being a developer of video games and related software technology, to becoming an independent publisher of its own video game franchises, while continuing to develop its own software in-house. By the end of the financial year the first franchise team, working on *Elite Dangerous*, represented approximately half of the development effort of the Company. Following the successful completion of work for external publishers, including *Screamride* for Microsoft and *Tales from Deep Space* for Amazon, the transition of the other half of the development effort began, developing second franchise "*Planet Coaster*" – this was announced at the E3 trade show shortly after the end of the financial year, receiving a very positive response from the public and press. The transitional phase is expected to complete in 2016 with the launch of *Planet Coaster*.

In January 2015 the Group consolidated its development activity in Cambridge and took the opportunity to align the mix of skills in the business. The office in Canada was closed, leaving the subsidiary operating as a home based project support function. The cost of the re-organisation was £0.3 million. In August 2014 Frontier Developments Inc., a US subsidiary incorporated in Delaware, was set up and began trading in May 2015 to distribute Frontier's video games into the US market. The Group also set up an Employee Benefit Trust in December 2014, at 31 May 2015 the Trust had an interest in 24,455 Ordinary Shares.

CASH AND CASHFLOW

The Group's operating cashflow was £7.3 million, supported by the public release of *Elite Dangerous*. The Group invested £4.4 million in non-current assets, being development costs for the franchises of Elite and *Planet Coaster* plus the continued investment in our underlying COBRA technology. Working capital was relatively static as the Group switched revenue streams, and debt repayment of £0.2 million was made to repay the Group's (Canadian subsidiary) interest-free loan from the federal-backed Atlantic Canada Opportunities Agency, thus bringing the Group back to a debt free position. The overall impact was an increase of £2.1 million in net cash and cash equivalents to £10.5 million, continuing to support the Group's investment and growth plan. Frontier's simplified cash movements can be represented as follows:

Movement in cash balances	**2015 £m**	2014 £m
Sources of cash		
Customer receipts	**21.1**	9.5
Funding and other sources	**0.3**	5.9
Incoming funds	**21.4**	15.4
Use of cash		
Salaries	**11.3**	9.6
Overhead, Other expenses, Tax and currency differences	**8.0**	4.6
Outgoing flows	**19.3**	14.2
Movement in net cash balance inc. borrowings	**2.1**	1.2

FINANCIAL REVIEW CONTINUED

REVENUE

The public release of *Elite Dangerous* prompted a significant change in the Group's revenue composition and value. Group revenue more than doubled to £22.8 million, and *Elite Dangerous* represented 84% of total revenue including associated merchandise.

Revenue	2015 £'000	2014 £'000	%	2013 £'000
Revenue	22,766	9,541	139	12,072

Self-published revenues consisted of sales of the game and digital in-game purchases. An element of revenue from the sale of 'lifetime expansion passes' remains as deferred income and is expected to be released over the useful economic life of the franchise.

External publisher revenue was lower as planned with the Group switching focus to self-publishing projects. Frontier worked on three projects of varying sizes for two key clients, and two of these games were released in the financial year 2014–15. The other project was cancelled at the client's request. At the financial year end we had no further contracted work.

Royalty income continued to accrue from our agreements on *RollerCoaster Tycoon 3* and *Kinect Disneyland Adventures*. Within the prior year revenue included 'one off' releases from Atari Interactive Inc. stemming from its re-organisation and a catch up royalty on *Kinect Disneyland Adventures*.

Revenue mix	2015 £'000	2014 £'000	% change	2013 £'000
Self-published	18,558	424	4,276	511
External publishers	3,429	7,707	(56)	11,355
Royalties	322	1,366	(76)	203
Merchandise and Other	457	44	939	3
Total Revenue	22,766	9,541	139	12,072

GROSS MARGIN AND SEGMENTAL CONTRIBUTION

Overall gross margin improved to 27% from 17%. Gross margin is stated after amortisation and expensed research and development costs. The Group has a number of revenue and cost streams where it is able to identify contribution towards gross profit:

	2015			2014		
Contribution for the year ending May	Revenue £'000	Cost £'000	Contribution £'000	Revenue £'000	Cost £'000	Contribution £'000
Self-published	18,558	(9,218)	9,340	428	(1,026)	(598)
External publishers	3,429	(2,452)	977	7,707	(4,591)	3,116
Other income and unallocated costs	779	(4,969)	(4,190)	1,406	(2,297)	(891)
Total	22,766	(16,639)	6,127	9,541	(7,914)	1,627

Self-Published
Revenue: The video game *Elite Dangerous* represents 98% of self-published revenue recognised in the year (2014: 77%). Revenue recognised included a release of £1.5 million of deferred revenue from the balance at the beginning of the year. Deferred revenue of £0.7 million (2014: £2.2 million) was carried forward, which is expected to be released over the estimated useful economic life of the franchise, estimated at eight years.

Costs: Staff costs incurred were £5.2 million (2014: £2.7 million), overheads incurred including sub contract and server costs were £2.1 million (2014: £0.1 million), and external marketing costs were £2.5 million (2014: £0.2 million). Costs capitalised into intangible assets were £3.7 million (2014: £2.8 million) and amortisation charged was £3.1 million (2014: £0.3 million for pre-release amortisation and £0.5 million of amortisation and impairment of the *Coaster Crazy* game). Internal development costs of £5.8 million are to be amortised over a period up to six years on a straight line basis, as adjusted for assessments of useful economic life. Incremental development costs for releases on additional platforms will be amortised over their useful economic life upon release. Amortisation for the acquired royalty streams of £5.1 million commenced on a straight line basis from December 2014 over the expected useful life of the franchise, estimated at eight years. Self-published work represented 45% of our man month development work in the year.

External Publishers
Publisher revenues were mainly derived from completion of milestones on *Screamride* with Microsoft Game Studios and *Tales from Deep Space* with Amazon Game Studios, being £3.3 million (2014: £7.4 million) recognised in the year. The remaining revenue stems from sub contract recharges (which are passed on at nil margin) of £0.1 million (2014: £0.3 million). There were no work in progress balances at year end as contracts had been completed (2014: £0.3 million of deferred income).

External publisher cost of sales includes staff costs of £2.4 million (2014: £4.4 million) and sub contract costs of £0.1 million (2014: £0.3 million). External publisher work represented 45% of our development work as measured in man months in the financial year.

Other income and unallocated costs – Royalties, Technology & Project support
The Group receives royalties from Atari for *RollerCoaster Tycoon 3* on a quarterly basis and Microsoft for *Kinect Disneyland Adventures* on a monthly basis. Revenue is accrued upon receipt of royalty reports. Merchandise revenues of £0.5 million (2014: £0.04 million) were recorded and those for royalties of £0.3 million (2014: £1.3 million). Royalty income in 2014 was supported by a one off promotional campaign for *Kinect Disneyland Adventures* and some catch up royalties from Atari as they emerged from Chapter 11 administration.

Technology costs are represented by the continued development costs of our COBRA technology. Project support includes the functions of senior management (including Executive Directors), marketing and customer support. The Group invested in this area during the year to support the self-publishing plans.

In the full year to 31 May 2015 the costs were staff costs of £3.0 million (2014: £2.0 million) and overhead of £1.2 million (2014: £0.4 million). Overhead includes third party commissions, merchandise costs and software subscription costs. Depreciation was £0.2 million (2014: £0.2 million), costs of £0.7 million (2014: £1.2 million) were capitalised, and amortisation charged represented £1.2 million (2014: £0.9 million). Of the development resource available to Frontier 10% of man months were used in the COBRA's Tools and Technology.

FINANCIAL REVIEW CONTINUED

PROFITABILITY

Frontier is currently delivering a planned transition to become a sustainable self-publishing business. The Board monitors performance on an adjusted operating profit basis (replacing adjusted EBITDA) in order to focus on the cash value drivers of the business. For adjusted operating profit the adjusting items were depreciation and amortisation, R&D capitalised, share-based compensation,and tax credits due, offset against administration costs and (in the prior year) funding costs associated with the IPO. It has also been decided to include fair value adjustments on currency forward contracts and financial assets as an adjusting item. The measures of EBITDA and adjusted EBITDA have been shown as sub totals for comparative purposes.

As expected, Frontier has incurred additional costs and lower revenue because of the transition, but despite this, the Group has already become a profitable operation. Operating profit was £1.6 million compared with a loss in the prior period of £1.7 million. EBITDA was £6.1 million compared with £0.3 million in the prior year. Adjusted operating profit increased to £2.5 million from a loss in the prior year of £1.3 million.

The public release of *Elite Dangerous* led to a significant increase in amortisation. An increase in share-based compensation was principally due to a one off share option grant to Directors and senior employees issued in September 2014 and vesting between one and three years.

The reconciliation is as follows:

	2015 £'000	2014 £'000	%	2013 £'000
Operating result	1,566	(1,705)	192	1,052
Depreciation	271	225		151
Amortisation and impairment	4,246	1,802		1,650
EBITDA	6,083	322	1,790	2,853
Share-based compensation	767	286		416
Fair value adjustments	72	32		–
(Loss) / gain on sale of investment	1	(21)		–
Funding costs / listing expenses	–	217		308
Dilapidations provision	37	36		37
Subsidiary set-up fees	7	–		10
EBITDA adjusted	6,967	872	699	3,624
R&D capitalised	(4,338)	4,035		(1,708)
Tax credits deducted from Administration costs	(163)	(307)		(86)
Adjusted Operating Profit / (loss)	2,466	(3,470)	171	1,830

FINANCE INCOME

Interest receivable from the Group's cash resources was relatively flat at £0.1 million, and continues to be at low levels due to the current interest rate environment worldwide.

INCOME TAX

The Group had no current tax liability and in the prior year the Canadian operation incurred a £0.04 million charge. There was a release of £0.03 million in the deferred tax credit (2014: charge £0.07 million) for tax, due to the temporary difference over R&D tax relief and a local digital media tax. The parent company continues to hold unused tax losses of £5.9 million to set against future taxable profits generated in the UK (2014: £6.7 million). Frontier are able to take advantage of cash based tax credits in both the UK and Canada; in the year we accounted for £0.2 million (absorbed as a reduction in administrative costs) (2014: £0.3 million).

EARNINGS PER SHARE

The basic earnings per share for 2015 was 4.9 pence per share compared to loss per share of (5.8) pence for 2014 based on a weighted average number of shares of 33.5 million (2014: 33.3 million).

On a diluted basis, earnings per share was 4.7 pence compared to diluted loss per share in the prior year of (5.8) pence based on a weighted average number of shares of 35.3 million (2014: 33.3 million).

The adjusted basic earnings per share is based on the adjusted operating profit shown on this page. The adjusted basic earnings per share was 7.4 pence compared to the prior period's adjusted loss per share of (11.4) pence. On a diluted basis the adjusted earnings per share is 7.0 pence (2014: loss (11.4 pence)).

NON-CURRENT ASSETS AND RESEARCH AND DEVELOPMENT EXPENDITURE

Investment in the Group's own IP capitalised in the year was up 8% in line with our transition plans at £1.3 million, reflecting Frontier's commitment to a strategic software development programme in respect of *Elite Dangerous* and COBRA technology. Including the acquired rights, £8.2 million of self-published net book value is represented by the *Elite Dangerous* franchise.

Investment in intangibles was focused on developing self-published titles (*Elite Dangerous*, with the first public release in December 2014), continuing expansion of platform versions (Mac and Xbox One) and *Planet Coaster*, (scheduled for Q4 2016) and further multi-platform work on COBRA.

Research and development expensed was higher at £0.8 million, up from £0.4 million.

Additions for tangible assets mainly comprised computer equipment for staff and durable marketing materials, for example, a model of the Cobra space ship.

SHARE ISSUES

Employees remain confident in the Company and converted 0.5 million share options into Ordinary Shares up to the end of May 2015; exercise proceeds were £0.4 million, and of these conversions 0.3 million of Ordinary Shares were transferred under arrangements with the newly formed Employee Benefit Trust, representing exercise proceeds of £0.2 million. The Group granted 1.5 million share options in the year (2014: 0.4 million) under CSOP and unapproved plans. This included one off grants to Directors of 0.5 million shares (2014: nil).

The Employee Benefit Trust operates by way of a loan under a drawdown facility of up to £10.0 million dated 9 December 2014. At 31 May the loan balance drawn down was £0.6 million, and the trust owned 24,255 Ordinary Shares.

CURRENT ASSETS

Trade and other receivables were unchanged at £3.1 million, as a reduction in publisher amounts owed was offset by amounts owed from sales made via the PC distribution platform 'Steam'.

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 in the year at a small loss.

For cash and cash equivalents see note 16.

CURRENT LIABILITIES

Trade and other current liabilities decreased by £0.5 million to £3.2 million, mainly as a result of deferred income release. The Group's Canadian subsidiary repaid an interest-free loan from the federal-backed Atlantic Canada Opportunities Agency of £0.2 million.

Deferred income was £0.7 million (2014: £2.5 million). Deferred income not released at the launch of *Elite Dangerous* comprised income for lifetime expansion passes, which is expected to be released over the expected useful economic life of the Elite franchise. In the prior year £0.3 million of deferred income was for external publisher work.

NON-CURRENT LIABILITIES

The Group fully utilised deferred tax assets (losses and provisions) to offset UK deferred tax liabilities (timing differences on fixed asset) resulting in a nil balance. An overseas deferred tax liability of £0.1 million is provided against federal investment tax credits due. Deferred income is represented by amounts expected to be recognised on lifetime expansion passes during the franchise period and more than one year. Dilapidation provisions are ongoing following the renewal of the leases in 2015 with a termination date of 2020.

This Strategic Report was approved by the Board and signed on its behalf by:

DAVID WALSH
Chief Operations Officer

NEIL ARMSTRONG
Company Secretary and Chief Finance Officer

8 September 2015

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 OBE
Founder and CEO

Joined
Founding shareholder, January 1994

David is the co-author of the seminal Elite title and has over 32 years' experience in the gaming industry. David is also a founding trustee of the Raspberry Pi Foundation, a charity which aims to inspire a new generation of children to get interested in computer science through the use of a credit-card sized computer that plugs into your TV and a keyboard.

David was formerly a Non-Executive Director of Phonetic Arts, a Cambridge-based company focused on speech synthesis that was acquired by Google in December 2010. David is a Fellow of the Royal Academy of Engineering, was honoured with a Fellowship of BAFTA in 2015, the recipient of three honorary doctorates (from Abertay University, The Open University and York University), and was honoured with an OBE in the 2014 Birthday Honours for services to the UK computer and video games industry.

Committees
Nominations

DAVID WALSH
Chief Operations 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. David is President of Frontier Developments Inc., Frontier's wholly owned Canadian subsidiary, and Frontier Developments Inc., Frontier's wholly owned US subsidiary.

Committees
Remuneration

JONNY WATTS
Chief Creative Officer

Joined
November 1998

Jonny has over 28 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 an advocate of supporting young game developers. Jonathan joined the Board in February 2012.

Committees
n/a

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.£1.2 billion. Jonathan is an active supporter of the Cambridge, UK, business community. He is Deputy Chairman of Abcam plc and Chairman of Axol Bioscience Limited and PhoreMost Limited. He is also a Non-Executive Director of Horizon Discovery Group and GeoSpock Limited.

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. In 2014 Neil was appointed as Treasurer to Frontier Developments Inc., Frontier's wholly owned US subsidiary. In the financial year Neil was also appointed as a Director of Frontier Developments Inc., Frontier's wholly owned Canada subsidiary, in order to assist with a business re-organisation.

Committees
Audit, Nominations, Remuneration

CORPORATE DIRECTORY

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

REGISTERED OFFICE
306 Science Park
Milton Road
Cambridge
CB4 0WG

COMPANY SECRETARY AND CFO
Mr N R Armstrong

REGISTERED COMPANY NUMBER
02892559

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 MAY 2015

The Directors present their report for the Group and Company together with the financial statements for the year to 31 May 2015. The financial statements are prepared under International Financial Reporting Standards as adopted by the EU.

BUSINESS REVIEW

A review of the Group's development performance and future development is provided in the Strategic Report (see page 8). Information on the financial risk management strategy is given within that report and in note 28 to the financial statements.

GOING CONCERN

The Group's forecasts lead to a reasonable expectation that the Group has adequate resources to continue business for the foreseeable future. Further to a review of required cash resources, the Group reduced its revolving credit facility with Barclays Bank plc in May 2015 from £3 million to £1 million. The facility expires 8 May 2016.

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, with the exception of shares held by the Employee Benefit Trust that are not eligible to vote under the Trust deed.

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 below.

During the year

David Gammon purchased 20,000 Ordinary Shares of 0.5 pence each in the Company at 230 pence per share.

David Braben purchased 15,000 Ordinary Shares at 230 pence per share.

Jonathan Watts exercised share options in respect of 30,000 Ordinary Shares at an exercise price of 67 pence per Ordinary Share. On the same day as the exercise of these options, Mr. Watts sold 8,740 Ordinary Shares at a price of 230 pence per Ordinary Share to meet the exercise costs and associated tax liabilities.

DIRECTORS

The Directors who held office at 31 May 2015 and their interest in the share capital of the Company were as follows:

Name	2015 Number	2015 %	2014 Number	2014 %
David Gammon*	291,720	0.9	271,720	0.9
David Braben	17,910,953	53.3	17,895,953	53.6
David Walsh*	1,245,820	3.7	1,245,820	3.7
Jonathan Watts	44,760	0.1	23,500	0.0
Jonathan Milner*	662,104	2.0	662,104	2.0
Total	20,155,357	60.0	20,099,097	60.2

* Including direct family holdings

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Strategic Report, 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 and Group 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.

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, including items expensed, in research and development to support its strategy was £1.0 million in the year (2014: £1.2 million).

DIVIDEND

The Directors are not recommending the payment of a dividend at this time (2014: £nil).

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. During the year the Group added medical insurance as a benefit and implemented pension auto enrolment.

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 1 September 2015 the following, other than the Directors whose shareholdings are listed on page 22, 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	9.7
Chris Sawyer	2,341,226	6.9
Amati Venture Capital	1,072,730	3.2

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
8 September 2015

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MAY 2015

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 established 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 22.

BOARD MEETINGS AND PRACTICES

The Board seeks to meet formally at least nine times a year including two 'off-site' strategic review days. All members of the Board are invited to attend all meetings. In the financial year to 31 May 2015 the Board met on 11 occasions.

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 Numis Securities Limited; 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 and Neil Armstrong, and is supported by Amanda Heslam (the Group Accountant).

In the financial year to 31 May 2015 the Audit Committee met on four occasions, including three 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 pensions, medical insurance and share option schemes.

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

In the financial year to 31 May 2015 the Remuneration Committee met on three 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, David Braben and Neil Armstrong.

In the financial year to 31 May 2015 the Nominations Committee met on one occasion.

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 2015 was as follows:

	Board	Remuneration Committee	Nominations Committee	Audit Committee
Number of meetings	11	3	1	3
David Gammon	11	3	1	3
David Braben	11	–	1	–
David Walsh	11	3	–	–
Jonathan Watts	11	–	–	–
Jonathan Milner	7	3	–	–
Neil Armstrong	11	3	1	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 seek to meet on a weekly basis, joined by the Group Accountant and Head of Marketing. Project meetings covering all projects individually, technology, finance, marketing, customer support, quality assurance, investor relations support services and HR seek to meet on a weekly basis.

A new leadership group including all senior managers seeks to meet at least once a month.

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 Directors or Company Secretary.

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 and 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 annually.

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. In order to support internal capacity building for investor relations the Group has become a member of the Quoted Company Alliance and the IR Society.

REMUNERATION REPORT
FOR THE YEAR ENDED 31 MAY 2015

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 the Chief Operations Officer, and 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. As a consequence, salaries were reviewed and amended at 1 June 2014.

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; and
- the set up of a 'stretch goal' based bonus scheme.

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

There was no bonus payment for the year to May 2014, which would have been made in December 2014. 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

A 'one off' share option grant was made to Executive Directors in September 2014 using the Group's Company Share Option Plans, being approved and unapproved. The Share option grant sought to bring Executive Directors' total options to 300,000 each. The Non-Executive Directors were issued with a small grant of 12,500 Share options each at a price of £2.30 in March 2015 in recognition of their contribution.

Pension contributions, medical insurance and life cover

The Executive Directors joined the 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. From August 2014, Medical Insurance including family cover was offered to all employees including Executive Directors. All Executive Directors elected to take up these arrangements.

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 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	Pension Contributions £'000	Taxable Benefits £'000	2015 Total £'000	2014 Total £'000
Executive						
David Braben	180	–	2	1	183	128
David Walsh	180	–	2	1	183	128
Jonathan Watts	180	–	2	1	183	128
Non-Executive						
David Gammon	50	–	–	–	50	37
Jonathan Milner	30	–	–	–	30	28
Total	620	–	6	3	629	449

The expense recognised in the statement of comprehensive income for the Directors' share options including Non-Executive Directors' was £434,032 (2014: £186,055) with the amount attributable to the highest paid Director being £351,967 (2014: £64,099).

The gain attributable to Directors on share options in the year at the date of exercise was £48,900.

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
8 September 2015

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 2015 which comprise the consolidated and company statement of cashflows, the consolidated income statement, consolidated statement of comprehensive income, consolidated and company statement of financial position, 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 22, 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/auditscopeukprivate.

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 2015 and of the Group's profit 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
8 September 2015

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2015

	31 May 2015 £'000	31 May 2014 £'000
Operating activities		
Cash generated from operations (see below)	7,334	342
Finance income	(53)	(63)
Taxes received / (paid)	23	(1)
Cashflow from operating activities	7,304	278
Investing activities		
Purchase of property, plant and equipment	(289)	(254)
Expenditure on intangible assets	(4,385)	(4,182)
Proceeds from disposal of non-derivative financial assets	36	21
Employee benefit trust investment	(551)	–
Interest received	53	63
Cashflow from investing activities	(5,136)	(4,352)
Financing activities		
Proceeds from convertible loan notes	–	1,580
(Repayment) / Proceeds from interest-free loan	(158)	175
Proceeds from issue of share capital	159	4,145
Cashflow from financing activities	1	5,900
Net change in cash and cash equivalents from continuing operations	2,169	1,826
Cash and cash equivalents at beginning of period	8,612	7,155
Exchange differences on cash and cash equivalents	(303)	(369)
Cash and cash equivalents at end of period	10,478	8,612

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

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

CASH GENERATED FROM OPERATIONS

	31 May 2015 £'000	31 May 2014 £'000
Profit / (loss) after tax	1,647	(1,754)
Depreciation, amortisation and impairment	4,517	2,027
Atari shares	–	(33)
Fair value adjustments	31	(32)
Profit on disposal of fixed assets and available for sale assets	1	(5)
Proceeds from the sale of non-current assets	16	–
Share-based payment expenses	767	286
Taxation	(190)	(70)
Foreign exchange	242	336
Operating cashflow before changes in working capital	7,031	755
Net changes in working capital:		
Change in inventories	2	(15)
Change in trade and other receivables	74	(882)
Change in trade and other payables	190	447
Change in provisions	37	37
Cash generated from operations	7,334	342

COMPANY STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2015

	31 May 2015 £'000	31 May 2014 £'000
Operating activities		
Cash generated from operations (see below)	7,468	184
Finance income	(50)	(57)
Cashflow from operating activities	7,418	127
Investing activities		
Purchase of property, plant and equipment	(287)	(246)
Expenditure on intangible assets	(4,385)	(4,182)
Proceeds from disposal of non-derivative financial assets	36	21
Employee benefit trust investment	(551)	–
Interest received	50	57
Cashflow from investing activities	(5,137)	(4,350)
Financing activities		
Proceeds from convertible loan notes	–	1,580
Proceeds from issue of share capital	159	4,145
Cashflow from financing activities	159	5,725
Net change in cash and cash equivalents from continuing operations	2,440	1,502
Cash and cash equivalents at beginning of period	7,997	6,819
Exchange differences on cash and cash equivalents	(234)	(324)
Cash and cash equivalents at end of period	10,203	7,997

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

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

CASH GENERATED FROM OPERATIONS

	31 May 2015 £'000	31 May 2014 £'000
Operating profit	1,584	(2,094)
Depreciation, amortisation and impairment	4,485	1,981
Atari shares	–	(33)
(Profit) / loss on disposal of fixed assets and available for sale assets	3	(5)
Share-based payment expenses	761	262
Taxation	(7)	(10)
Foreign exchange	233	326
Operating cashflow before changes in working capital	7,059	427
Net changes in working capital:		
Change in inventories	2	(15)
Change in trade and other receivables	676	(1,210)
Change in trade and other payables	(306)	945
Change in provisions	37	37
Cash generated from operations	7,468	184

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2015

	Notes	31 May 2015 £'000	31 May 2014 £'000
Revenue	5	**22,766**	9,541
Cost of sales		**(16,639)**	(7,914)
Gross profit		**6,127**	1,627
Administrative expenses		**(4,561)**	(3,332)
Operating profit / (loss)		**1,566**	(1,705)
Finance income	24	**53**	63
Profit / (loss) before tax	6	**1,619**	(1,642)
Income tax	25	**28**	(112)
Profit / (loss) for the period attributable to the equity holders of the parent		**1,647**	(1,754)

All the activities of the Group are classified as continuing.

	Notes	31 May 2015 p	31 May 2014 p
Earnings per share	26		
Basic earnings / (loss) per share		**4.9**	(5.8)
Diluted earnings / (loss) per share		**4.7**	(5.8)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2015

	31 May 2015 £'000	31 May 2014 £'000
Profit / (loss) for the period	**1,647**	(1,754)
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**(57)**	(30)
Total comprehensive income for the period attributable to the equity holders of the parent	**1,590**	(1,784)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2015 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2015 £'000	31 May 2014 £'000
Non-current assets			
Intangible assets	7	11,101	10,962
Property, plant and equipment	9	333	328
Total non-current assets		11,434	11,290
Current assets			
Inventories	13	13	15
Trade and other receivables	14	3,046	2,964
Other short-term assets	15	50	106
Cash and cash equivalents	16	10,478	8,612
Total current assets		13,587	11,697
Total assets		25,021	22,987
Equity and liabilities			
Equity			
Share capital	17	168	167
Share premium account		13,963	13,805
Equity reserve		633	790
Foreign exchange reserve		(57)	(30)
Retained earnings		6,180	4,160
Total equity		20,887	18,892
Liabilities			
Current			
Trade and other payables	20	3,107	1,207
Deferred income	21	96	2,456
Borrowings	22	–	14
Total current liabilities		3,203	3,677
Non-current			
Provisions	23	260	223
Borrowings	22	–	121
Deferred income	21	627	–
Deferred tax	12	44	74
Total non-current liabilities		931	418
Total liabilities		4,134	4,095
Total equity and liabilities		25,021	22,987

These financial statements were approved by the Directors on 8 September 2015 and signed on their behalf by:

DAVID BRABEN OBE
Director

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

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2015 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2015 £'000	31 May 2014 £'000
Non-current assets			
Intangible assets	7	**11,101**	10,962
Property, plant and equipment	9	**333**	284
Total non-current assets		**11,434**	11,246
Current assets			
Inventories	13	**13**	15
Trade and other receivables	14	**2,771**	3,447
Other short-term assets	15	**13**	45
Cash and cash equivalents	16	**10,203**	7,997
Total current assets		**13,000**	11,504
Total assets		**24,434**	22,750
Equity and liabilities			
Equity			
Share capital	17	**168**	167
Share premium account		**13,963**	13,805
Equity reserve		**633**	777
Retained earnings		**5,607**	3,668
Total equity		**20,371**	18,417
Liabilities			
Current			
Trade and other payables	20	**3,080**	1,654
Deferred income	21	**96**	2,456
Total current liabilities		**3,176**	4,110
Non-current			
Provisions	23	**260**	223
Deferred income	21	**627**	–
Total non-current liabilities		**887**	223
Total liabilities		**4,063**	4,333
Total equity and liabilities		**24,434**	22,750

These financial statements were approved by the Directors on 8 September 2015 and signed on their behalf by:

DAVID BRABEN OBE
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2015

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
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
Increase in equity in relation to options issued	–	–	767	–	–	767
Net loss on EBT shares	–	–	(495)	–	–	(495)
Own shares held by the EBT	–	–	(56)	–	–	(56)
Share-based payment transfer	–	–	(373)	–	373	–
Issue of share capital less expenses	1	158	–	–	–	159
Transactions with owners	1	158	(157)	–	373	375
Profit for the year	–	–	–	–	1,647	1,647
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(27)	–	(27)
Total comprehensive income for the year	–	–	–	(27)	1,647	1,620
At 31 May 2015	**168**	**13,963**	**633**	**(57)**	**6,180**	**20,887**

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

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2015

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
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
Increase in equity in relation to options issued	–	–	762	–	762
Net loss on EBT shares	–	–	(495)	–	(495)
Own shares held by the EBT	–	–	(56)	–	(56)
Share-based payment transfer	–	–	(355)	355	–
Issue of share capital less expenses	1	158	–	–	159
Transactions with owners	1	158	(144)	355	370
Profit for the year	–	–	–	1,584	1,584
Total comprehensive income for the year	–	–	–	1,584	1,584
At 31 May 2015	**168**	**13,963**	**633**	**5,607**	**20,371**

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2015

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 its North American subsidiaries, Frontier Developments Inc., based in Canada and Frontier Developments Inc. in the US.

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.

Change in accounting policies

The Group adopted IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interests in other entities' and IAS 27, 'Separate financial statements' on 1 June 2014. This resulted in the Group changing its accounting policy for the basis of consolidation and definition of control but has had no further impact on the 2015 financial statements.

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, except for financial instruments held at fair value. The financial information is presented in Sterling, the presentation and functional currency for the Group and Company. 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 current cash resources and 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 12 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.
The Group maintains a revolving credit facility to support its plans, and 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 is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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.

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 license 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 three and five years. When a self-published game is intended for release on multiple platforms without material content change, amortisation is based on the length of time in which that game is expected to be supported in an unchanged format with a limit of up to six years. Acquired rights are assessed for the useful 'franchise life'. For *Elite Dangerous* this is prudently estimated at eight years; within the sector successful franchises normally have useful lives of over ten years. 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.

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
FOR THE YEAR ENDED 31 MAY 2015

3. PRINCIPAL ACCOUNTING POLICIES CONTINUED
Basis of consolidation and business combinations continued

f) Inventories
Inventories are stated at the lower of cost and net realisable value. Inventory 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.

For external publisher work, 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.

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
Loans and receivables comprise trade receivables, other receivables, derivative financial instruments and cash and cash equivalents.

Financial assets 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 asset's carrying amount and the present value of estimated future cashflows discounted at the financial asset's original effective interest rate.

Financial assets at FVTPL
Derivative financial instruments are financial assets measured at fair value through the profit and loss (FVTPL) and are financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial liabilities
The Group's financial liabilities include trade and other payables.

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.

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).

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.

Equity reserve – This represents the value of the Employee Benefit Trust (EBT) that gets offset against distributable reserves and 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 to support the development of self-published games.

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
FOR THE YEAR ENDED 31 MAY 2015

3. PRINCIPAL ACCOUNTING POLICIES CONTINUED

Basis of consolidation and business combinations continued

Where there is less correlation between the revenue and cost profile, revenue from customer specific contracts is 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, revenue is 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 received on a monthly or calendar quarter basis.

Revenue from released self-published titles is recognised on download of the game or upon purchase of in-game digital items.

Revenue from crowd-funding for self-published titles is normally deferred, then 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 grant 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 an equity reserve. 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. Upon the exercise or lapsing of the grant a transfer of the cumulative value of the grant is made from the equity reserve to the profit and loss reserve.

n) Tax credits

The UK and Canada offer tax credits which are reported 'above the line', meaning that they are reported within the operating result. The Group recognises these on the likelihood of their receipt, taking into account any uncertainty in the claims, including uncertainty that arises in the first year of any claim for a new credit.

o) 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.

p) Segment reporting

The Group identifies two operating segments even though the business is managed as a whole reflecting the transition of the Group from an external publisher to self-publishing. 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 contribution before central costs. Assets are not fully directly attributable to any separable activity, other than to self-published software intangibles.

q) 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.

r) Employee Benefit Trust

As the company is deemed to have control of its Employee Benefit Trust (EBT), it is treated as a subsidiary and consolidated for the purposes of the consolidated financial statements. The EBT's assets (other than investments in the company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements. The EBT's investment in the company's shares is deducted from equity in the consolidated statement of financial position as if they were treasury shares. The gain or loss on transfer of the shares from the EBT to employees is recognised as equity.

s) 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 (IASB effective date 1 January 2018)*
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017)*
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB effective date 1 January 2016)*
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016)*
- Annual Improvements to IFRSs 2010-2012 Cycle (EU effective date 1 February 2015)
- Annual Improvements to IFRSs 2011-2013 Cycle (EU effective date 1 January 2015)
- Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)*
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)*
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2016)*

* Not adopted by the EU (as at 8 September 2015).

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 2015 are £11,100,568 (2014: £10,961,795).

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2015

4. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

a) Intangible assets continued
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 reflects this 'contribution element'. The pledge levels also include delivery of a number of 'early versions' of the game, and an estimated and prudent cost of sale is applied as amortisation. In the case of *Elite Dangerous* 60% was used. In the financial year to May 2015 £1,220,085 of amortisation was recognised for these elements of *Elite Dangerous* (May 2014: £271,143).

b) 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.

c) Revenue recognition
Where self-published titles have pre-orders, recognition is made by reference to delivery of performance obligations. Revenue stemming from the sale of 'early versions' of a game are recognised from the date of release of the 'early access versions'. Where pre-orders include delivery of the final version of the game, an estimate is made of this final element, which is moved to deferred income until the final version is released to the public.

For external publishing work 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.

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 two operating segments, being self-published work, and projects for external publishers and royalties plus merchandise. 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 2015 £'000	31 May 2014 £'000
United Kingdom	5,798	1,807
United States of America	7,687	7,470
Rest of the world	9,281	264
	22,766	9,541

The Group's contribution (revenue less directly attributable costs) by each segment is as follows:

	31 May 2015 £'000	31 May 2014 £'000
Self-published	9,340	(598)
External publishers	977	3,116
Other income and unallocated costs	(4,190)	(891)
	6,127	1,627

For further analysis of contribution per operating segment see Finance review page 16.

At 31 May 2015 £nil of non-current assets were based in Canada (2014: £43,342), with the remainder in the UK.

In 2015 there were no customers whose revenue accounted for more than 10% of the Group and Company's total revenue (2014: there were two main customers that accounted for 63% and 18% of revenue).

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

	31 May 2015 £'000	31 May 2014 £'000
External publishers	3,429	7,707
Self-published	19,012	469
Royalties	322	1,362
Other	3	3
	22,766	9,541

Adjusted operating profit / (loss) costs are adjusted for non cash expenses an funding items as a key performance indicator for the Group and are also used by the Chief Executive Officer. In the prior year Adjusted EBITDA was monitored and has been included as sub totals which are calculated as follows:

	31 May 2015 £'000	31 May 2014 £'000
Operating profit / (loss)	1,566	(1,705)
Depreciation	271	225
Amortisation and impairment	4,246	1,802
EBITDA	6,083	322
Share-based compensation	767	286
Funding costs / listing expenses	–	217
Dilapidation provision	37	36
Fair value adjustments	72	32
Gain on investment	1	(21)
US set-up fees	7	–
Adjusted EBITDA	6,967	872
R&D capitalised	(4,338)	(4,035)
Tax credits deducted from Administration costs	(163)	(307)
Adjusted Operating Profit / (loss)	2,466	(3,470)

6. PROFIT / (LOSS) BEFORE TAX

		31 May 2015 £'000	31 May 2014 £'000
This is stated after charging / (crediting):			
Amortisation and impairment on intangibles		4,246	1,802
Depreciation of owned property, plant and equipment:		271	225
Research and development costs expensed		287	371
Auditor remuneration:			
Audit services	– statutory audit	39	30
Non-audit services	– tax services	–	5
	– corporate finance services	–	61
	– other services	8	7
Operating leases	– land and buildings	526	527

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2015

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 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
Additions – arising from internal development	663	3,675	47	4,385
Disposals	(848)	–	(9)	(857)
At 31 May 2015	**4,342**	**13,141**	**994**	**18,477**
Amortisation and impairment				
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
Charge for the period	1,075	2,680	116	3,871
Charge for the period for acquired rights	–	375	–	375
Disposals	(848)	–	(9)	(857)
At 31 May 2015	**2,252**	**4,221**	**903**	**7,376**
Net book value at 31 May 2015	**2,090**	**8,920**	**91**	**11,101**
Net book value at 31 May 2014	2,502	8,300	160	10,962

Excluding an immaterial amount of third party software amortisation that is included in administrative expenses all amortisation charges, impairments or reversals (if any) are included within cost of sales.

The impairment in 2014 arose from a review of the monetisation profile of *Coaster Crazy*.

In 2014 the additions acquired separately were the Elite rights acquired from Professional Practice Automation LLP.

The net book value of the acquired rights at 31 May 2015 was £4.8 million (2014: £5.1 million).

8. INVESTMENT IN SUBSIDIARY UNDERTAKINGS
The Company holds a £66 investment in Frontier Developments Inc., a company registered in Canada and a £6 investment in Frontier Developments Inc., a company registered in the US. These represent 100% of the Ordinary Share capital of the companies which are 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 2013	240	1,179	10	1,429
Additions	34	220	–	254
Disposals	(1)	–	–	(1)
At 31 May 2014	273	1,399	10	1,682
Additions	76	213	–	289
Disposals	(116)	(267)	(6)	(389)
At 31 May 2015	**233**	**1,345**	**4**	**1,582**
Depreciation				
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
Charge for the period	52	216	3	271
Disposals	(110)	(261)	(5)	(376)
At 31 May 2015	**172**	**1,073**	**4**	**1,249**
Net book value at 31 May 2015	**61**	**272**	**–**	**333**
Net book value at 31 May 2014	43	281	4	328

Company

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
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
Additions	75	212	–	287
Disposals	(100)	(166)	–	(266)
At 31 May 2015	**233**	**1,345**	**4**	**1,582**
Depreciation				
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
Charge for the period	49	189	–	238
Disposals	(100)	(166)	–	(266)
At 31 May 2015	**172**	**1,073**	**4**	**1,249**
Net book value at 31 May 2015	**61**	**272**	**–**	**333**
Net book value at 31 May 2014	35	249	–	284

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2015

9. PROPERTY, PLANT AND EQUIPMENT CONTINUED
Depreciation charges are apportioned to the income statement as follows:

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Charge				
Cost of sales	241	196	213	150
Administration expenses	30	29	25	29
Total	271	225	238	179

10. OPERATING LEASES AS LESSEE
At each period end the future operating lease payments were as follows:

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Minimum lease payments due within one year	670	487	670	372
Minimum lease payments due within one to five years	2,669	271	2,669	28
Minimum lease payments due in greater than five years	43	–	43	–
Total	3,382	758	3,382	400

Group lease payments recognised as an expense during the year ended 31 May 2015: £522,587 (2014: £526,599).

The lease payments relate to the rental contracts for the office buildings, which expire April 2015 and August 2015. New lease agreements have now been entered into for both buildings on the Science Park and they are due to expire in April 2020 and August 2020. Both leases have flexible break clauses that can be exercised if required by the Group.

The Group decided to exercise the right to the lease break clause in the Halifax office on 31 March 2015. This was carried out as part of the office closure.

Company lease payments recognised as an expense during the year ended 31 May 2015: £431,227 (2014: £415,983).

The lease payments relate to the rental contracts for the office buildings, which expire April 2020 and August 2020. 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 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Loans and Receivables				
Trade and other receivables	1,592	2,259	1,656	2,904
Cash and cash equivalents	10,478	8,612	10,203	7,997
Total	11,070	10,871	11,859	10,901

Derivative financial instruments

The Group's financial instruments are measured at fair value and are summarised below:

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Derivative financial assets				
Forward exchange contracts – held for trading	163	–	163	–
Total	163	–	163	–

During the financial year the Group started using forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast sales in US Dollars. The forward contracts are considered by management to be part of economic hedge arrangements but have not been formally designated.

All forward contracts are held at fair value through the profit and loss by reference to the exchange rate at the balance sheet date as supplied by our main banking partner.

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Financial liabilities				
Financial liabilities measured at amortised cost:				
Trade and other payables	**2,806**	937	**2,779**	1,400
Designated at fair value through profit and loss:				
Interest-free loan	**–**	135	**–**	–
Total	**2,806**	1,086	**2,779**	1,400

The interest free loan that was due to the Atlantic Canada Opportunities Agency was repaid in full during the financial year. This was due to the closure of the Halifax office.

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 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Accelerated capital allowances	**1,493**	503	**1,493**	505
Short-term temporary differences (restricted)	**(483)**	(429)	**(483)**	(505)
Tax losses (restricted)	**(966)**	–	**(1,010)**	–
Total liability	**44**	74	**–**	–
Balance brought forward	**74**	28	**–**	–
Effect of tax rate change on opening balance	**–**	–	**–**	–
Effect of exchange rate change on opening balance	**(2)**	1	**–**	–
Movement in year	**(28)**	45	**–**	–
Balance carried forward liability	**44**	74	**–**	–

No deferred tax asset at 31 May 2015 has been recognised in the statement of financial position for the Group. The deferred tax liability at 31 May 2015 is £43,689 (2014: £73,781), 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 2015 amount to £5.9 million (2014: £6.7 million). Total UK based short-term temporary differences available at 31 May 2015 amount to £2.0 million (2014: £0.6 million).

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Deferred tax asset not provided				
Short-term temporary differences	**–**	(125)	**–**	(127)
Losses	**(1,122)**	(996)	**(1,122)**	(996)
Total	**(1,122)**	(1,121)	**(1,122)**	(1,123)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2015

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

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Work in progress	–	3	–	3
Merchandise	13	12	13	12
Total inventory	13	15	13	15

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

For the year ended 31 May 2015 a total of £453,784 was expensed for merchandise (2014: £16,061).

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 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Trade receivables, gross	134	953	127	953
Intercompany receivable	–	–	72	706
Trade receivables, net	134	953	199	1,659
Derivative financial instruments	163	–	163	–
Other receivables	1,458	1,306	1,457	1,245
Financial assets	1,755	2,259	1,819	2,904
Prepayments	770	532	752	515
VAT and other taxes	521	173	200	28
Non-financial assets	1,291	705	952	543
Trade and other receivables	3,046	2,964	2,771	3,447

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 by reference to Fair value measurement recognised in the balance sheet. The Group has applied the methodology in Level 3 of the hierarchy with reference to discounted cashflow of expected incomes, taking into account any costs to completion.

Group

		Neither past due nor impaired	Past due but not impaired	
	Total £'000	£'000	0–90 days £'000	>90 days £'000
May 2015	134	134	–	–
May 2014	953	953	–	–

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

Company

	Neither past due nor impaired		Past due but not impaired	
	Total £'000	£'000	0–90 days £'000	>90 days £'000
May 2015	**199**	**199**	**–**	**–**
May 2014	1,659	1,659	–	–

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

15. OTHER SHORT-TERM ASSETS

Other short-term assets comprise:

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	**31 May 2015 £'000**	31 May 2014 £'000
Investment in shares	**–**	33	**–**	33
Software applications	**–**	6	**–**	6
Current tax assets	**50**	67	**13**	6
Other short-term assets	**50**	106	**13**	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. These shares were sold during the financial year at a profit to the Group of £6,796.

During 2014 software applications were acquired under the asset acquisition from Professional Practice Automation LLP; the Group disposed of this asset during the year for no proceeds.

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	**31 May 2015 £'000**	31 May 2014 £'000
Cash at bank and in hand				
GBP	**7,944**	5,410	**7,944**	5,411
USD	**2,229**	1,170	**2,195**	1,169
EUR	**55**	38	**55**	38
CAD	**250**	1,994	**9**	1,379
Financial assets	**10,478**	8,612	**10,203**	7,997

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2015

17. EQUITY
Share capital

Group and Company movements in share capital

Movements in Ordinary Shares are as follows:

	2015		2014	
	Number '000	Value '000	Number '000	Value '000
At 1 June 2013 and 31 May 2014				
Ordinary Shares of 0.5 pence (0.1 pence)	33,384	167	25,234	127
Shares issued on option exercises	196	1	338	1
Shares issued pre-IPO	–	–	132	1
Shares issued upon listing on AIM	–	–	5,678	28
Shares issued as non-cash consideration	–	–	2,002	10
At 31 May 2015	33,580	168	33,384	167

During the year to 31 May 2015 the following share issues were made:

From 1 June 2014 to 31 May 2015 195,900 Ordinary Shares of 0.5 pence were allotted as fully paid at an average premium of 80.7 pence being the exercise of share options by employees. The average market value was 244.1 pence on the days of exercise.

18. EMPLOYEE REMUNERATION
Remuneration recognised for employee benefits (including Directors) are analysed below.

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

	31 May 2015 £'000	31 May 2014 £'000
Wages and salaries	10,933	8,577
Social security costs	1,048	876
Pension costs	84	18
Share-based compensation	767	180
	12,832	9,651

Included in the above payroll costs for the year ended 31 May 2015 is £4,021,039 (2014: £4,027,605) capitalised within intangible fixed assets (see 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 2015 £'000	31 May 2014 £'000
Research and development	258	233
General and administrative	15	12
	273	245

Remuneration of Directors

	31 May 2015 £'000	31 May 2014 £'000
Directors' emoluments	540	384
Non-Executive fees	20	20
Non-Executive consultancy fees	60	42

Emoluments of highest paid Director

	31 May 2015 £'000	31 May 2014 £'000
Emoluments	180	128

Remuneration of key management personnel

	31 May 2015 £'000	31 May 2014 £'000
Short-term employee benefits		
Salaries including bonuses	1,321	1,012
Social security	168	128
Pension contributions	12	2
Benefits in kind	7	–
Total short-term employee benefits	1,508	1,142
Non-Executive fees	50	65
Share-based compensation charge	488	212
Total	2,046	1,419
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	14

A total of 801,000 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 2015 was 70,000 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.

The Group operates two EMI schemes (Pre July 2013), a Company Share Option Plan (from January 2014), and an Unapproved scheme (Pre July 2013) and plan (from January 2014). The Share option grants for employees vest between one and three years with a contractual term of ten years. The option holder must be employed by the Group at the time of exercise. The unapproved options carry the similar conditions as the main Company Share option plan, except for one tranche issued on 15 September 2014 that has a shorter vesting period of one year.

Date of grant	Scheme type	Period when exercisable	Price in pence	2015 Number	2014 Number
6 December 2005	2002 EMI scheme	2006–2015	67	443,400	675,475
30 July 2013	2013 EMI scheme	2013–2011	89	789,223	1,036,523
30 January 2013	Unapproved	2014–2023	89	–	34,000
15 May 2013	2013 EMI scheme	2014–2023	95	228,000	230,000
21 March 2014	Company Share Option Plan	2017–2024	224.5	228,000	251,000
15 September 2014	Company Share Option Plan	2017–2024	257.5	291,950	–
15 September 2014	Unapproved	2017–2024	257.5	649,850	–
15 September 2014	Company Share Option Plan	2015–2024	257.5	288,350	–
10 March 2015	Company Share Option Plan	2018–2025	230	232,100	–
10 March 2015	Unapproved	2018–2025	230	8,200	–
				3,159,073	2,226,998

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

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

** Of these share options 217,084 were issued to Canaccord Genuity Limited for services rendered as part of the IPO process, which were exercised in July 2015 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MAY 2015

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 2015		31 May 2014	
	Number	Weighted average exercise price in pence	Number	Weighted average exercise price in pence
Opening balance	**2,440,426**	**100.0**	2,417,800	82.0
Adjustment	**–**	**–**	30,000	82.0
Granted	**1,512,450**	**216.6**	464,428	175.2
Exercised	**(496,375)**	**78.7**	(337,802)	76.8
Forfeited	**(84,000)**	**210.4**	(134,000)	90.0
Closing balance	**3,372,501**	**181.9**	2,440,426	100.0
Exercisable at the year end	**1,674,051**	**87.6**	2,189,426	85.6

The weighted average share price at the date of exercise of the share options was 242.1 pence. The share based compensation charge in the profit and loss was £767,000 of which £9,000 was in respect of warrants.

The share options at the end of May 2015 including those for Non-Executive Directors have a weighted average contractual life as follows:

		Group and Company year ended			
		31 May 2015		31 May 2014	
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	**443,400**	**7**	675,475	19
July 2022	89	**789,223**	**84**	1,036,523	96
January 2023	89	**–**	**92**	34,000	104
May 2023	95	**228,000**	**96**	230,000	108
July 2023	95	**65,790**	**98**	65,790	110
July 2023	127	**147,638**	**98**	147,638	110
March 2024	224.5	**228,000**	**106**	251,000	118
September 2024	257.5	**1,230,150**	**112**	–	–
March 2025	230.0	**240,300**	**118**	–	–
Total		**3,372,501**	**90**	2,440,426	79

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.

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 is 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:

	March 2015	September 2014
Share price at date of grant (pence)	230	258
Exercise price	230	258
Expected time to expiry (years)	8.47	8.64
Risk-free interest rate (%)	4.3	3.7
Expected dividend yield on shares (%)	0	0
Expected volatility of share price (%)	38	41
Fair value of options granted (pence)	123.4	138.4

The assumptions for the September 2014 and March 2015 rounds are based on statistical analysis of share price data from the listing on AIM.

Employee Benefit Trust (EBT)

On 5 December 2014 the Company set up an Employee Benefit Trust for the purposes of allowing employees to exercise their share options, including the choice of being able to do this on a cashless exercise basis. The exercise of options are approved by the Board at each Board meeting, outside of Share dealing Closed periods, under a letter of recommendation to the Trustees of the EBT. The fulfilment of the share option conversions, whether by issue of shares to the EBT or market purchases, is also made at the same time. The EBT is limited under ABI guidelines to holding not more than 10% of the Ordinary Share capital of the Group. The Trustees are appointed by Appleby Trust (Jersey) Limited, who administer the trust. The number of share options exercised by employees in the year and fulfilled as part of these arrangements was 300,475 Ordinary Shares. The EBT purchased 251,733 Ordinary Shares from the market and 73,197 Ordinary Shares from employees exercising under the cashless options. The EBT had no other assets or liabilities at 31 May 2015 outside of its interest in 24,455 Ordinary Shares, and £550,766 was drawndown from the £10 million facility provided by the Company.

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 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Trade payables	1,014	463	974	463
Intercompany payable	–	–	26	500
Accruals	1,792	474	1,779	437
Financial liabilities	2,806	937	2,779	1,400
Other taxation and social security	301	270	301	254
Total trade and other payables	3,107	1,207	3,080	1,654

Trade and other payables are due within one year. The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MAY 2015

21. DEFERRED INCOME

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

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Contractual	–	268	–	268
Self-published	723	2,188	723	2,188
Deferred income	723	2,456	723	2,456

£96,467 of deferred income is to be recognised within one year with the remaining £627,034 due within the next 6.5 years (expected remaining life of the franchise period).The deferred revenue is in respect of *Elite Dangerous* lifetime expansion passes purchased during the financial year. The deferred revenue will be released over the remaining franchise period after the first paid-for update has been released. The carrying values of deferred income are considered to be a reasonable approximation of fair value.

22. BORROWINGS

The Company has a £1 million revolving credit facility with Barclays Bank plc; this has not been drawn upon in the financial year. In the prior year the revolving credit facility was £3 million and the Group had an interest free loan from the Atlantic Canada Opportunities Agency (see note 11).

23. PROVISIONS FOR DILAPIDATIONS

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Opening balance	223	187	223	187
Provided for in period	37	36	37	36
At period end	260	223	260	223

The dilapidation provision relates to the rental contracts for two office buildings (included within note 10). These leases expire in April 2020 and August 2020. 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.

24. FINANCE INCOME

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

	31 May 2015 £'000	31 May 2014 £'000
Interest income from cash and cash equivalents	53	63

25. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of the charge in the period

	31 May 2015 £'000	31 May 2014 £'000
UK corporation tax based on the results for the year	–	(8)
Overseas tax on the results for the period	–	75
Deferred tax	(28)	45
Tax on profit / (loss) on ordinary activities	(28)	112

(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 21.5% (2014: 20.3%) as follows:

	31 May 2015 £'000	31 May 2014 £'000
Profit / (loss) on ordinary activities before taxation	1,619	(1,642)
Tax on profit / (loss) on ordinary activities at standard rate	347	(334)
Factors affecting tax expense for the year:		
Overprovision in prior period	–	(8)
Expenses not deductible for tax purposes	236	116
Adjustments for opening deferred tax average rate	(2)	(1)
Research and development tax credits	(282)	(452)
Exercise of share options	(163)	(88)
Losses to carry forward	(164)	879
Total amount of tax	(28)	112

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 became 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 adjusted operating profit as shown for adjusted items in Note 5.

	31 May 2015	31 May 2014
Profit / (loss) attributable to Shareholders (£'000)	1,647	(1,754)
Weighted average number of shares	33,513,575	30,479,942
Basic earnings / (loss) per share (pence)	4.9	(5.8)

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 2015	31 May 2014
Profit / (loss) attributable to Shareholders (£'000)	1,647	(1,754)
Diluted weighted average number of shares	35,346,221	30,479,942
Diluted earnings / (loss) per share (pence)	4.7	(5.8)

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 2015	31 May 2014
Ordinary Shares	33,513,575	30,479,942
Under option	1,832,647	–
Diluted average number of shares	35,346,221	30,479,942

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MAY 2015

26. EARNINGS PER SHARE CONTINUED

The calculation of the adjusted earnings per share, based on the adjusted operating profit / (loss) as shown in detail in note 5, is as follows:

	31 May 2015	31 May 2014
Adjusted Operating profit / (loss) attributable to shareholders (£'000)	**2,466**	(3,470)
Weighted average number of shares	**33,513,575**	30,479,942
Adjusted basic earnings / (loss) per share (pence)	**7.4**	(11.4)
Weighted average number of shares (diluted)	**35,346,221**	30,479,942
Adjusted diluted earnings per share (pence)	**7.0**	(11.4)

27. 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 2015 £'000**	**Creditor balance 31 May 2015 £'000**	Expense paid 31 May 2014 £'000	Creditor balance 31 May 2014 £'000	**Expense paid 31 May 2015 £'000**	**Creditor balance 31 May 2015 £'000**	Expense paid 31 May 2014 £'000	Creditor balance 31 May 2014 £'000
Chris Sawyer – royalties	**58**	**–**	40	53	**58**	**–**	40	53
Marjacq Micro Limited – sales commission	**33**	**–**	20	27	**33**	**–**	27	27

28. 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.

28.1 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 Board monitors the credit risk by reference to the date of receipt compared to the contractual terms.

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.

28.2 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 has entered into several forward contracts during the financial year in order to mitigate the risk of US currency movements. The closing value of the contracts has been disclosed within financial assets, and accounted for at fair value through the profit and loss.

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 2015			31 May 2014			31 May 2015			31 May 2014		
	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	**9**	**2,229**	**55**	1,379	1,170	38	**9**	**2,195**	**55**	1,379	1,169	38

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 EUR. An increase in Sterling would lead to a decrease in income and a decrease in equity.

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	31 May 2015 £'000	31 May 2014 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	**202**	189	**330**	189
Equity	**192**	180	**182**	164

28.3 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 2015				
Trade and other payables	**2,748**	**58**	**–**	**–**
As at 31 May 2014				
Trade and other payables	834	131	102	19

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2015

28. FINANCIAL INSTRUMENT RISKS CONTINUED
Risk management objectives and policies continued

28.3 Liquidity risk analysis continued

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 2015				
Trade and other payables	**2,721**	**58**	**–**	**–**
As at 31 May 2014				
Trade and other payables	1,258	124	(8)	–

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.

29. 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.

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

	Consolidated year ended		Company year ended	
	31 May 2015 £'000	31 May 2014 £'000	**31 May 2015 £'000**	31 May 2014 £'000
Total equity	**20,927**	18,892	**20,371**	18,417
Borrowings (includes current element)	**–**	135	**–**	–
Less cash and cash equivalent	**(10,478)**	(8,612)	**(10,203)**	(7,997)
Total Capital	**10,449**	10,415	**10,168**	10,420

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

NOTICE OF ANNUAL GENERAL 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 20 October 2015 at 09:15 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 2015 together with the Reports of the Directors and Auditor thereon.

Resolution 2. To re-appoint Mr Jonathan Francis Watts 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. That, for the purposes of section 423 of the Companies Act 2006, the annual reports for the Company be distributed to the Shareholders by electronic means from the year end 31 May 2016 onwards, unless any shareholder opts in to receive a paper version.

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 £56,327.97, 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 2016 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 ANNUAL GENERAL 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 £16,898.39 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 2016 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
8 September 2015

Frontier Developments plc
306 Science Park
Milton Road
Cambridge CB4 0WG

EXPLANATORY 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. 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.

3. 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.

4. 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.

5. 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 PXS, Capita Asset Services, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 9:15 a.m on Friday 16 October 2015 (being not more than 48 hours (excluding non-working days) prior to the time fixed for the meeting).

6. Whether or not you propose to attend the Annual General Meeting, please complete, sign and submit a Form of Proxy to Capita Asset Services (address above) by no later than the time and date specified above.

7. Completion and return of the Form of Proxy will not preclude a shareholder from attending and voting in person at the meeting.

8. 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 6:00 p.m UK time on Friday 16 October 2015 shall be entitled to attend and vote at the meeting or, if the meeting is adjourned, 6:00 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.

9. 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).

10. 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
Cambridge CB4 0WG

Website
www.frontier.co.uk

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The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

JOINT BROKER
FinnCap Limited
60 New Broad Street
London EC2M 1JJ

AUDITOR
Grant Thornton UK LLP
101 Cambridge Science Park
Milton Road
Cambridge CB4 0FY

LEGAL ADVISORS TO THE COMPANY
Bird & Bird LLP
15 Fetter Lane
London EC4A 1JP

REGISTRARS
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

REGISTERED NUMBER
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(Incorporated and registered in England and Wales)

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