POISED TO SUCCESSFULLY COMPLETE OUR BUSINESS TRANSITION

FRONTIER DEVELOPMENTS PLC
ANNUAL REPORT AND ACCOUNTS 2016

BUILDING WORLD-CLASS FRANCHISES

The games industry is transitioning into the world's premier form of entertainment. Frontier has a proven track record of progressive development in video games spanning several decades of rapid technological change. The Group's 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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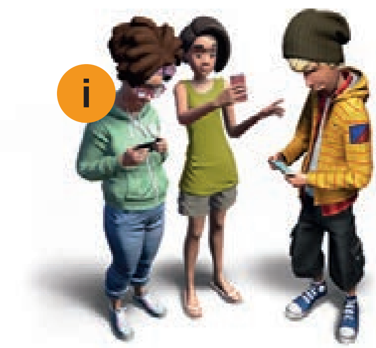


For more information visit:
AR2016.frontier.co.uk or www.frontier.co.uk

HIGHLIGHTS

SUBSTANTIALLY, ALL GROUP REVENUES IN THE PERIOD WERE DERIVED FROM SELF-PUBLISHING.

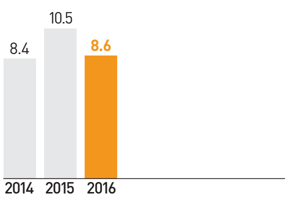
CONTINUED INVESTMENT IN THE GROUP'S TRANSITION.

EXPANDED THE *ELITE DANGEROUS* AUDIENCE.

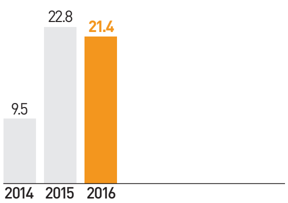
***PLANET COASTER* ON A POSITIVE TRAJECTORY FOR NOVEMBER 2016 LAUNCH.**

FINANCIAL

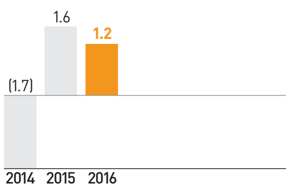
£8.6m
NET CASH BALANCE (£m)
-18%



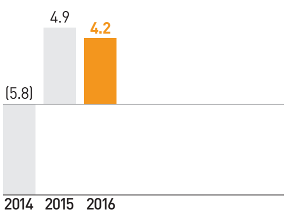
£21.4m
REVENUE (£m)
-6%



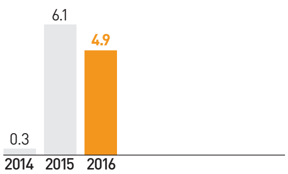
£1.2m
OPERATING PROFIT (£m)
-21%



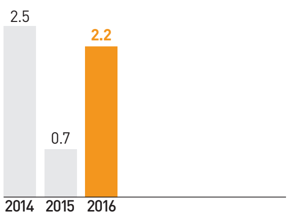
4.2p
EPS (p)
-14%



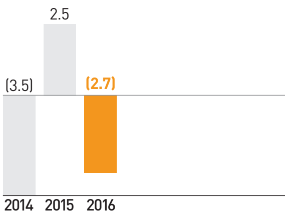
£4.9m
EBITDA (£m)
-20%



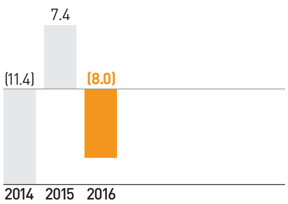
£2.2m
DEFERRED INCOME (£m)
+68%



£(2.7)m
ADJUSTED OPERATING RESULT* (£m)
-209%



(8.0)p
ADJUSTED LPS / (EPS)* (p)
-208%



* See page 24 for the reconciliation to the operating profit.

2

3

4

OPERATIONAL HIGHLIGHTS

1 Poised to complete business transition

- Substantially, all Group revenues in the period were derived from self-publishing activities, which was up 13% at £21.0 million (FY15: £18.6 million). In addition the deferred income balance rose by £1.5 million to £2.2 million.
- Good progress was made during the period towards the strategic objective of self-publishing multiple revenue generating franchises. There was continued investment in the Group's transition with *Elite Dangerous* revenues used to fund development of both *Planet Coaster* and further *Elite Dangerous* franchise development.

2 Second franchise on track

- Alpha builds of the Group's second franchise, *Planet Coaster*, were released to early adopter customers and the game remains on track for launch on 17 November 2016.

3 *Elite Dangerous* audience expanded

- The Group expanded the audience for *Elite Dangerous* by releasing on Microsoft's Xbox One, and supporting the consumer launch of the two major PC Virtual Reality systems.
- New *Elite Dangerous* products were introduced to cover all main price points: *Elite Dangerous: Horizons* is a paid-for seasons pass of expansions to extend the *Elite Dangerous* game, and *Elite Dangerous: Arena* is a low-priced entry point offering instant action player-vs-player combat.

4 Frontier's player numbers grow

- The total *Elite Dangerous* franchise unit sales increased by over one million during the year, and are currently around 1.8 million.
- *Planet Coaster* exceeded the Board's expectations, with around 25,000 unit sales during the period and 50,000 to date.

CHAIRMAN'S STATEMENT

"THE FINANCIAL YEAR TO 31 MAY 2016 (FY16) REPRESENTS A YEAR OF CONTINUED GOOD PROGRESS IN OUR TRANSITION TO A MULTI-FRANCHISE, SELF-PUBLISHING COMPANY."

DAVID GAMMON
Non-Executive Chairman

For the first time substantially all our revenue has come from self-published titles: *Elite Dangerous* and *Planet Coaster* (in Alpha). We have transformed a business-to-business enterprise into a business-to-consumer organisation in the space of two years.

In FY17, we will launch our second franchise, *Planet Coaster*, and as a result will complete our strategic transition to self-publishing multiple revenue generating franchises.

As part of this transition and to continue the preparation of the business for long-term success, we will continue to develop, evolve and invest in our organisational structure and facilities. This will provide the right platform as we endeavour to further the success of our franchises and continue to grow their number.

We believe we are building the right management teams, organisation and infrastructure to be able to effectively create, develop, market and sell even more distinct franchises aimed at different audience segments.

Number of *Planet Coaster* pre-orders at end August 2016:

50,000

On behalf of all shareholders, I take this opportunity to thank our employees and advisors for their amazing skill, professionalism and dedication.

I would also like to pay tribute to the support and experience Jonathan Milner brought to our Board during his period as an NED. Jonathan joined the Board pre-IPO in order to lend his weight and experience to the transfer from a private company to an AIM quoted company. That work has now been completed and I am delighted to welcome Charles Cotton as our new NED and Jonathan's replacement. Charles has a successful worldwide track record in high-growth technology companies and his experience will be invaluable as we continue to build the organisation.

During FY16 we further developed both *Elite Dangerous* and *Planet Coaster* franchises and recruited new people into the organisation. In FY17 we expect to start seeing the results of these efforts.

DAVID GAMMON
Non-Executive Chairman
6 September 2016

***Elite Dangerous* franchise units:**

1,800,000

Read more on page:

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CHIEF EXECUTIVE'S STATEMENT

"WE HAVE DELIVERED ANOTHER GREAT YEAR OF PROGRESS TOWARDS OUR GOAL OF EARNING REVENUE FROM MULTIPLE SELF-PUBLISHED FRANCHISES."

DAVID BRABEN OBE
Founder and CEO

OVERVIEW

We have had our first full year with *Elite Dangerous*, selling over one million franchise units in the period. At the same time we have made great progress with our second franchise *Planet Coaster*, releasing its first and second 'alpha test' versions to the public towards the end of the financial year, with the third 'alpha test' version released since the close of the financial year. The expected full release of *Planet Coaster* has just been announced for 17 November 2016 at the time of going to press, and will mark the successful completion of our transition, with all development staff working on revenue-generating franchises under our new self-published business model. We can then start on a third franchise as planned.

This year we earned substantially all our revenue from self-published products for the first time, with self-published revenue increasing by 13% and revenue from work-for-hire contracts falling to zero in the year as planned, other than trailing royalties. Headline revenue was £21.4 million with deferred income of £2.2 million. The Group remains in a strong financial position with a net cash balance of £8.6 million. As we continued our planned transition, we generated a pre-tax profit of £1.3 million and EBITDA of £4.9 million. We are pleased with the strong financial position of the business, having invested £8.9 million in our two major self-published franchises during the financial year (2015: £4.3 million), with an increased proportion of development relating to titles yet to be released to 51% (2015: 30%).

MARKET

The video games sector continues to grow significantly. In calendar year 2016, analysts predict that the global video game market will hit around $100 billion.

PC is the largest digital sales revenue generator by platform, with over 50% market share, followed by mobile, then console. The shift to digital distribution is already largely complete in the PC and mobile segments. Consoles are the only segment in which physical retail remains significant; this is also the segment where digital sales are growing at their fastest rate.

STRATEGY

Our transition to publishing our own franchises is the best way to maximise the benefit of our core skills, assets and our technological platform, COBRA, which enables both *Elite Dangerous* and *Planet Coaster* and future franchises to have a significant technological advantage. The Company's focus is on developing top quality self-published PC and console titles for digital distribution, as together these segments represent the majority of the available market by revenue, and generally the audiences on these platforms value high quality games, and quality is one of Frontier's key development strengths. We will also continue to create further franchises and games that benefit from work on existing franchises that would make use of our established expertise and / or IP in order to further build our revenue pipeline over the long term.

Our belief is that having all our people in our Cambridge HQ working together in a single building will maximise our operational efficiency. We will work toward this objective in the coming months and years.

Going forward we will continue to grow the capacity and capability of our organisation in both commercial and development areas in order to further the successful evolution of our franchises. As part of this process, we will explore potential partnerships and licensing opportunities. We will also continue to review potential acquisition targets that could augment our capacity or add new capabilities and / or IP that may help us achieve our goals. We will endeavour to enhance and expand our franchises and grow their audiences using appropriate additional products, platforms, media, distribution channels, and charging models through investing in the necessary people, organisation, resources and infrastructure.

We believe that using our COBRA development tools and technology to facilitate the creation of innovative, strongly differentiated features for the PC and console audiences currently provides the best return on our investment. Whilst a publisher partner has in FY17 taken up two options under previous work-for-hire contracts to license COBRA to facilitate ports of existing games to new platforms, licensing our COBRA technology to new customers is not a current focus and remains a future strategic opportunity that we will continue to evaluate.

OPERATING IN LINE WITH OUR STRATEGIC PRIORITIES

1

Transition to self-publishing

2

Repeatable model over multiple franchises

3

Elite Dangerous franchise

4

Planet Coaster franchise

Read more on page:

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CHIEF EXECUTIVE'S STATEMENT CONTINUED

ELITE DANGEROUS

We have continued to support *Elite Dangerous* with regular significant expansions, and released *Elite Dangerous: Horizons*, a paid-for seasons pass of expansions, and *Elite Dangerous: Arena*, an immediate-action player-vs-player component as a stand-alone entry-level game. These allow us to cover all main price points. We have also participated in price promotions on each of the distribution platforms we are using, making the game available to a wider audience than we would otherwise reach. We have continued to reach new audiences for the game by supporting new distribution channels and platforms such as Xbox One and Amazon as well as the first consumer Virtual Reality (VR) headsets, the HTC Vive and the Oculus Rift. Our investment in our own COBRA technology allowed us to benefit from e arly adoption of this new technology – for example, *Elite Dangerous* has been a leading title on Oculus Rift for both sales and play-time each and every month since its launch. All of this continues to build the franchise.

Elite Dangerous is now in its second year of release. The attach rate of *Elite Dangerous: Horizons* to the base game was initially lower than expected, but unit sales of the base game were higher at the same time. *Horizons* and the base *Elite Dangerous* game continue to sell steadily, helped by the regular updates. These updates add to the quality of the game, renew the interest of existing players, and also generate additional coverage resulting in new sales.

The opportunity to become a breakout hit franchise remains, as the game continues to sell and we continue to focus on enhancements to further improve perceived quality and sentiment. We expect to continue to expand the player base over the next financial year, adding new content and increasing the audience.

PLANET COASTER

Development of *Planet Coaster* remains on track for launch in calendar Q4 2016. *Planet Coaster* draws on our extensive past experience in the 'Tycoon' genre, and in coaster park games, including the massive hit *RollerCoaster Tycoon 3*. We have now released three Alpha builds of *Planet Coaster* (the first two within the financial year). These have been very well received, and early indications are positive, with social media 'footprint' tracking significantly higher than *Elite Dangerous* at the equivalent time in the development cycle. *Planet Coaster* moves the 'Tycoon' genre forwards significantly, adding detailed creative building and a community hub to enrich simulation gameplay, and has captured the imagination of players already with a number of 'Youtubers' showing their experiences of building truly amazing structures within the game.

SUMMARY

We have delivered another great year of progress towards our goal of earning revenue from multiple self-published franchises. I would like to add my thanks to all at Frontier for their hard work, our investors for their continued support, and to our many fans around the world that continue to make it all possible.

DAVID BRABEN OBE
Founder and CEO
6 September 2016

OUTLOOK AND CURRENT TRADING UPDATE

Trading since the year end, in what is a seasonally quiet quarter for the Group, has exceeded the Board's expectations. Up to 31 August 2016 the Group had sold approximately 1.8 million franchise units of *Elite Dangerous*. The third *Planet Coaster* Alpha build was released in August, and up to 31 August 2016 the Group had sold approximately 50,000 pre-order units of *Planet Coaster*. Net cash balance at 31 August 2016 was approximately £8.4 million.

Since the year end the Group has also received £0.2 million of UK video game tax relief relating to its work for Amazon Game Studios. Frontier has submitted a further £0.7 million of claims related to *Elite Dangerous* which were not recognised in FY16, and will continue to submit claims for eligible projects at the appropriate time. See note 25 in the financial statements for an explanation of how this is treated.

Frontier remains at an early stage of the multi-franchise self-published model and therefore, although the Board believes Frontier's strategy will deliver successfully, it is difficult to predict future outcomes with a degree of certainty and the Board expects Frontier's results to continue to exhibit stepped characteristics driven by the timing of major franchise releases.

In FY17, following the successful completion of Frontier's transition to generating self-publishing revenue from multiple franchises with the release of *Planet Coaster*, the Board expects the Group to be well placed – using the self-published business model maximises the return on Frontier's core skills and assets, and two strong revenue-generating franchises will provide a good foundation from which to take further advantage of the significant opportunities available in the fastest growing segment of the entertainment industry.

We plan to continue to increase the audience for *Elite Dangerous* via new distribution channels and platforms, and to further enrich the *Elite Dangerous* experience with new activities and new ways to play. The Board expects sales of *Elite Dangerous* to continue to build over the rest of the financial year as new players are recruited and adoption of *Elite Dangerous: Horizons* continues.

The results for the year will primarily be driven by the successful launch of *Planet Coaster* in November and trading over the holiday period. The encouraging performance of *Planet Coaster* pre-orders and the positive reception of the Alpha build give the Board confidence of a successful launch. We will support *Planet Coaster* post launch in order to grow the community of players over time.

Overall, the Board is confident and excited about the opportunities ahead in the coming years.

Note regarding the effects of the UK's referendum vote to leave the EU:

The Board does not consider the UK referendum result to present any significant concerns for the business. Frontier has significant revenues from non-GBP sources, and exchange rate shifts therefore influence the Company's finances. To date the impact of the currency movements since the referendum has been positive, notwithstanding the Group's policy of hedging half its forecast exposure in its most significant foreign currencies. The Company is expecting that all existing non-UK EU nationals currently employed in the UK by Frontier will be able to remain working for the Company, although at the time of writing there are no specific details available as to the impact of the vote. The Board expects that even in the case where a visa may be required, as Frontier is a Tier 2 visa sponsor the Company should be able to retain the services of its current non-UK EU nationals. Frontier's approach to exchange rate volatility, staff availability and staff retention risks is set out in the Principal Risks and Uncertainties section on pages 20 to 21.

OUR STRATEGIC PRIORITIES AND KEY PERFORMANCE INDICATORS

FRONTIER'S STRATEGY IS TO BUILD MULTIPLE FRANCHISES OVER TIME IN THE PC AND CONSOLE SPACE, USING ITS COBRA TECHNOLOGY TO DELIVER QUALITY AND DIFFERENTIATION.

1

TRANSITION TO SELF-PUBLISHING

Frontier has been shifting to a self-publishing business model using digital distribution channels, and has grown end-customer facing facets of the organisation such as marketing, community and customer support as well as re-focusing its development staff to self published projects.

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2

REPEATABLE MODEL OVER MULTIPLE FRANCHISES

Frontier invests its development resources in games with strong franchise potential. In order to maximise the return on its core skills and assets Frontier has targeted game genres in which the company has established expertise and intellectual property.

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3

ELITE DANGEROUS FRANCHISE

Elite Dangerous is now in its second year of release, and made its debut on Xbox One. *Horizons* and the base *Elite Dangerous* game continue to sell steadily, with regular updates adding to the quality of the game, renewing the interest of existing players, and driving new sales.

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4

PLANET COASTER FRANCHISE

Planet Coaster draws on our extensive past experience in the 'Tycoon' genre, and in coaster park games. Feedback from the Alpha builds of *Planet Coaster* is very positive, with social media 'footprint' tracking significantly higher than *Elite Dangerous* at the equivalent time in the development cycle.

Read more on page:

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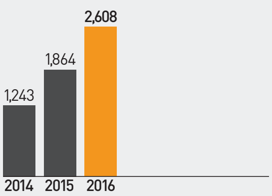
RELEVANT KEY PERFORMANCE INDICATORS

INVESTMENT IN SELF-PUBLISHING AND TECHNOLOGY

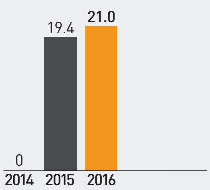
2,608
man months



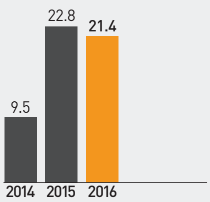
This was the Group's first year of investing in two self-published franchises.

TRANSITION OF REVENUE MIX & MEASURE OF GROWTH

21.0m
self-published



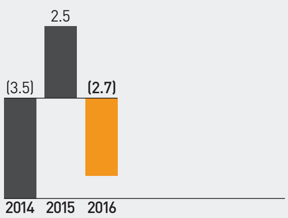
21.4m
total revenue



Self-published revenue grew to be substantially all the Group's total revenue. It grew in absolute terms to £21.0 million, an increase of 13% on the previous year.

MEASURE OF PROFITABILITY (£)

£(2.7)m



Adjusted operating profit as per note 5 to the financial statements.

1

Transition to self-publishing

Frontier has been shifting to a self-publishing business model using digital distribution channels, and has grown end-customer facing facets of the organisation such as marketing, community and customer support as well as re-focusing its development staff to self-published projects.

The most significant sales drivers in the games market are perceived quality and creating a unique experience. Frontier's development process uses its proprietary COBRA development tools and technology to facilitate innovative features and the creation of top quality self-published games with strong differentiation.

Frontier's control of its own COBRA games development technology also de-risks its developments in terms of risks related to ongoing access to third party technology, risks relating to ability to fix uncovered problems in that technology and lack of control over the delivery dates and feature roadmap of such solutions. It also facilitates rapid response to market opportunities like support for VR and Augmented Reality.

A previous publishing partner has in FY17 exercised its option under two previous work-for-hire contracts to license COBRA for their ports of existing games to new platforms. The Board is not expecting further such options to be exercised, and licensing Frontier's COBRA technology to new customers remains a potential future strategic opportunity that the Board will continue to evaluate rather than a current focus.


PETERSON

2

Repeatable model over multiple franchises

Frontier invests its development resources in games with strong franchise potential.

Its focus is on PC and console titles, as together these segments represent the majority of the available market by revenue and generally the audiences on these platforms have valued games that exhibit Frontier's key development strengths.

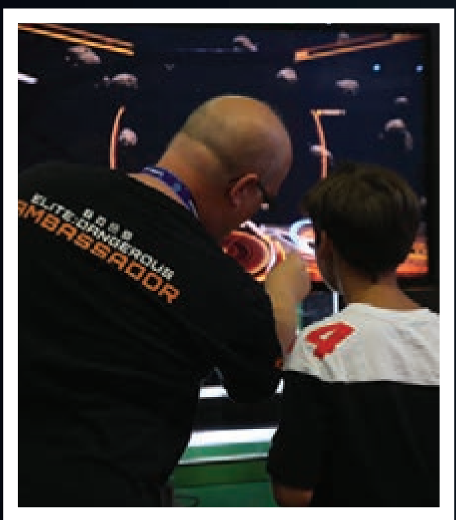
In order to maximise the return on its core skills and assets Frontier has targeted game genres in which the Company has established expertise and intellectual property.

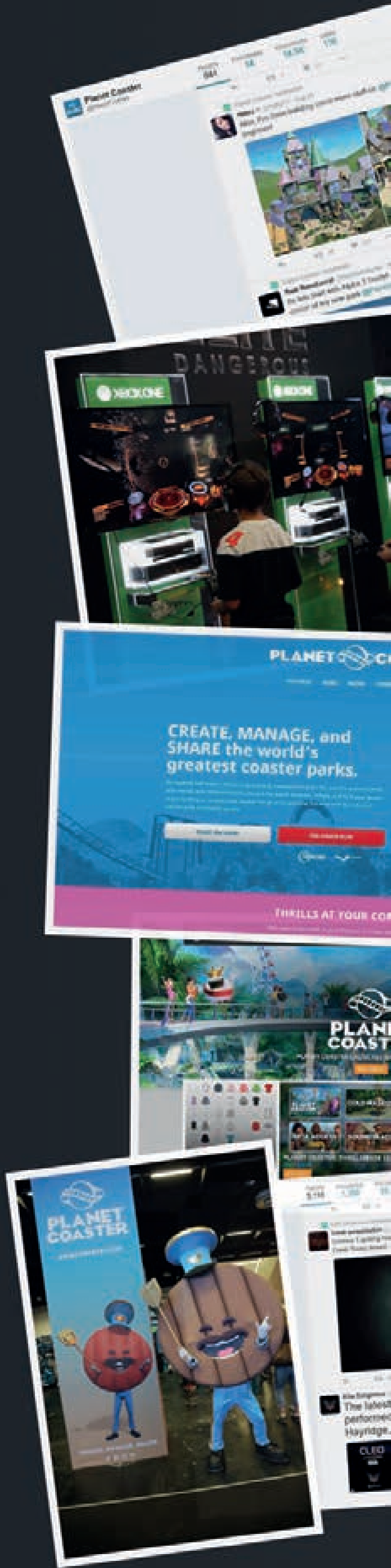
Frontier sustained similar levels of revenue with one franchise in the market whilst continuing to develop two franchises.

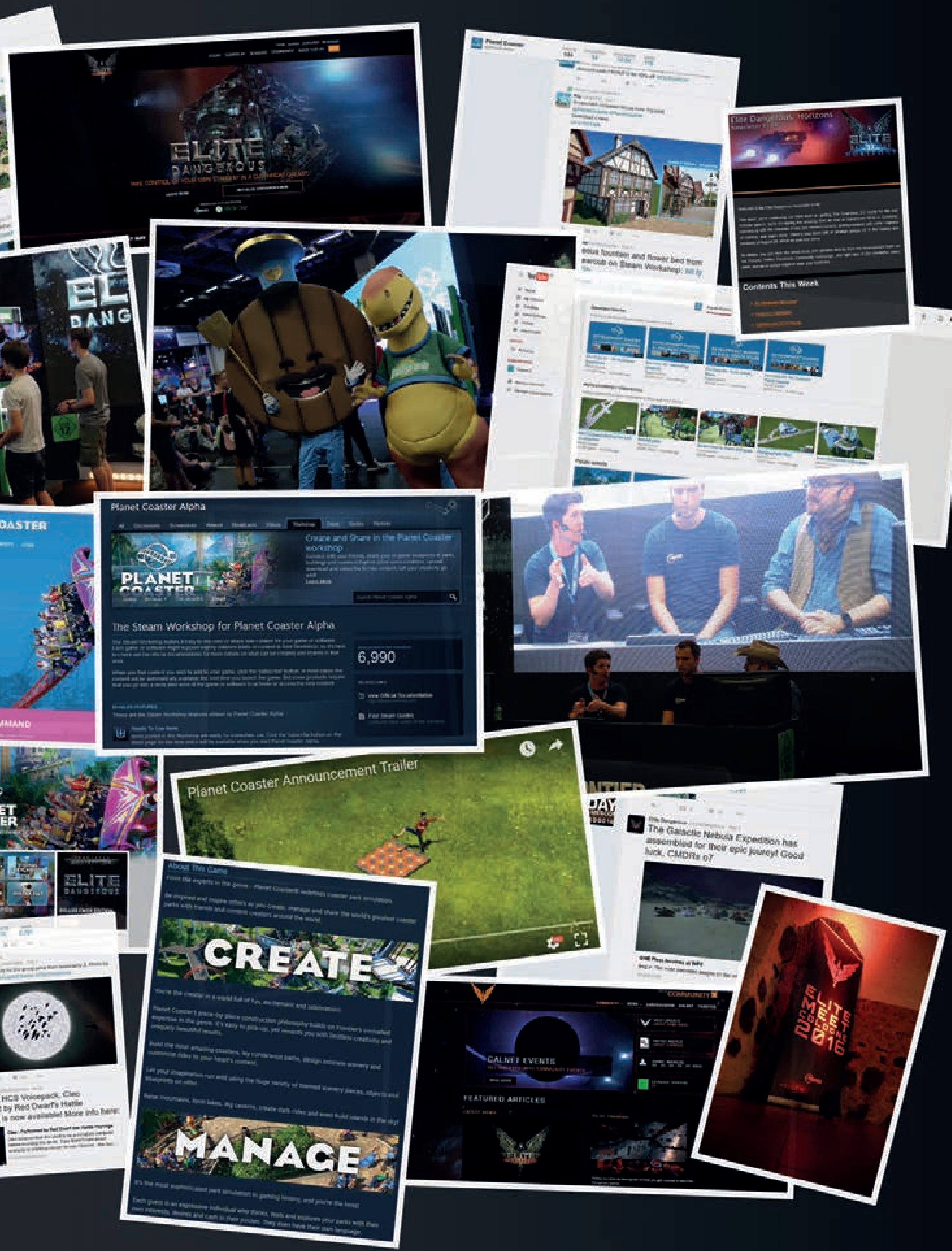
Major new releases will be key drivers of revenue. Because of the small number of franchises and relatively infrequent major releases Frontier is able to make, the revenue growth profile over financial years will be sensitive to the specific release schedule of such releases and may therefore exhibit 'stepped' behaviour.

2016 was a year of substantial investment for Frontier as we invested in *Planet Coaster* ahead of its release, which will complete our transition to earning self-published revenue from all our development effort.

Frontier uses online channels to create and engage with a fan-base or community during its self-published developments, which provides a valuable source of feedback and an enthusiastic community for each franchise before first release.






ELITE DANGEROUS
Elite Dangerous: Horizons
Contents This Week
Planet Coaster Alpha
Create and Share in the Planet Coaster workshop
PLANET COASTER
The Steam Workshop for Planet Coaster Alpha
6,990
Planet Coaster Announcement Trailer
The Galactic Nebula Expedition has assembled for their epic jouey! Good luck, CMDRs o7
About This Game
CREATE
MANAGE
FEATURED ARTICLES

Elite Dangerous franchise

Further updates to *Elite Dangerous*
During the financial year Frontier continued to release updates to *Elite Dangerous* in order to drive awareness and interest in the game.

1.3 Powerplay (June 2015) added the ability for players to influence the behaviour of the main story characters.

1.4 Close Quarter Combat (CQC) (October 2015) added an instant action 'CQC' arena mode to the game for players to take part in combat as a sport.

1.5 (December 2015) added more playable ships into the game.

1.6 (May 2016) added a new mission system, including the first images of human characters in the game.

***Elite Dangerous* on Xbox One**
In June 2015 *Elite Dangerous* became the first game to be offered as part of Microsoft's Game Preview Program (GPP) for its Xbox One games console, opening up a further audience for the game.

The GPP was the first time a paid beta / early access has been offered for a console, and Frontier's experience with this method of development on the PC platform was a large factor in Microsoft's decision to select *Elite Dangerous* as a lead title for the GPP.

Elite Dangerous was launched on Xbox One in October 2015, including the first four expansions.

Elite Dangerous for Xbox One was updated in May 2016 to allow Xbox players to make additional purchases of in-game items such as paint jobs for their ships, giving parity between the Xbox One and PC versions of the game. Future expansions are planned for simultaneous release on all platforms.

Elite Dangerous: Horizons
In August 2015 Frontier announced *Elite Dangerous: Horizons*, a second, paid-for, season of new expansions for *Elite Dangerous* dedicated to expanding gameplay, community and narrative. Frontier was able to engineer the underlying technology such that *Horizons* was fully backwards compatible, offering the key benefit that all players retain their progress and remain playing together in the same galaxy.

The first expansion in the *Horizons* season, Planetary Landings, was released on PC in December 2015, and the second, The Engineers, in May 2016. The Engineers was released six weeks later than originally planned, in order to give additional development time to focus on the quality of the release.

Elite Dangerous: Horizons initially offered an unclear value proposition to a proportion of players, and its positioning was subsequently altered early in 2016.

The number of *Elite Dangerous* players upgrading to *Horizons* built throughout the second half of the financial year, and Frontier expects this to continue as further *Horizons* expansions are released which further enhance the perceived quality and sentiment.

In June 2016, just after the end of the financial year, *Elite Dangerous: Horizons* was launched for Xbox One customers. Future expansions in the season will be released simultaneously on all platforms.

Elite Dangerous: Arena
Frontier launched *Elite Dangerous: Arena* on PC in February 2016 and in April 2016 for Xbox One. *Elite Dangerous: Arena* offers *Elite Dangerous* 'CQC' player-vs-player game as a standalone release at a low price point, with an easy upgrade path to the main game.

Virtual Reality
Using its COBRA technology Frontier was able to design *Elite Dangerous* from the ground up to support VR display systems.

As a result *Elite Dangerous* was the only 'AAA' game fully available in VR at the commercial launch of such systems.

After supporting early developer versions of the Oculus Rift, Frontier announced support for HTC's Vive VR headset (and other Steam VR compatible headsets) in September 2015, and in March 2016 *Elite Dangerous* was a launch title for Facebook's Oculus Rift consumer headset and available for purchase through the Oculus Home store on day one of its operation – *Elite Dangerous* has been a leading title on Oculus Rift for both sales and play-time each and every month since Home's launch.

4

Planet Coaster franchise

Early in 2015 Frontier completed its outstanding contractual obligations to its publisher partners and started to invest in its second self-published franchise, *Planet Coaster*, a coaster park simulation game. Frontier has a very successful track record in developing games in this genre, for example *RollerCoaster Tycoon 3* and *Zoo Tycoon* for PC and Xbox One respectively.

A trailer video for *Planet Coaster* premiered at the PC Gaming Show held during the E3 tradeshow in Los Angeles in June 2015, with pre-orders being made available for purchase at that time.

Planet Coaster Alpha builds
Planet Coaster is being developed using a similar philosophy of phased public pre-release builds to the game's community of followers that Frontier used successfully with *Elite Dangerous*.

This serves both to test increasing levels of game functionality with large numbers of people and stimulate awareness of the game.

Alpha One was released in March 2016 offering the first creation tools such as modular scenery construction and pathing, plus an early version of rollercoaster construction.

Alpha Two was released in May 2016 including terrain modification tools, a further iteration of rollercoaster construction, refinements to pathing and other improvements.

Building the _Planet Coaster_ community
Frontier started a programme to engage the *Planet Coaster* community including a 'development diary' video series, livestreams and internet forum 'Q&A sessions' designed to show the team's design philosophy, progress and plans.

The Board is encouraged by the feedback from the *Planet Coaster* community so far.

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 and general morale and wellbeing initiatives. The Group is a Tier 2 visa sponsor, to facilitate its objective to employ the best possible people from the worldwide talent pool.	
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 undertaking a 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 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 first step in the Group's transition to fully self-publishing its output has been successful with materially all of its revenue coming from self-published sales in the financial year, mainly from ongoing sales of *Elite Dangerous*. 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).	As 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. The intention is to retain an approximate 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 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 has appointed experienced key Non-Executive advisors to ensure risks are managed objectively, and will continue to review its requirements for strategic advice. 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.	No change
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.	No change
CREDIT		
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 recognised at the year end date (as summarised in notes 11 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 from 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 the risk of those companies defaulting to be low.	No change

FINANCIAL REVIEW

"IN THE FINANCIAL YEAR ENDED 31 MAY 2016, THE GROUP CONTINUED WITH ITS PLANNED INVESTMENT IN THE TRANSITION OF ITS BUSINESS TO EARNING ITS REVENUE FROM MULTIPLE SELF-PUBLISHED FRANCHISES. THE TRANSITION WILL BE COMPLETE WITH THE LAUNCH OF *PLANET COASTER*."

DAVID WALSH
Chief Operations Officer

NEIL ARMSTRONG
Company Secretary and Chief Finance Officer

TRADING RESULTS

During this transition year direct work-for-hire revenue fell to zero for the first time as planned (2015: £3.4 million), and self-published revenue grew to be substantially all the Group's total revenue. For the first time, all the Group's developers worked on our own self-published games and associated technology throughout the whole year.

The continued support and growth of *Elite Dangerous* including the addition of the Xbox One platform, the release of *Elite Dangerous: Horizons*, the release of the Alpha version of *Planet Coaster* and the launch of *RollerCoaster Tycoon 3* on the iOS platform all contributed to another profitable year whilst the business remains in transition. Development of *Planet Coaster* continued towards its intended launch of 17 November 2016, including the release of the first Alpha build in March 2016.

The Group continues to show cashflow as the primary financial statement as the Board believes it represents a clearer picture of the Group's performance during transition.

The Group's operating cashflow was £7.3 million (2015: £7.3 million) and its investment in non-current assets was £9.2 million (2015: £4.7 million), consequently net cash balance reduced in this investment phase to £8.6 million from £10.5 million.

Total revenue was 6% lower year-on-year at £21.4 million (2015: £22.8 million), although self-published revenue grew from £16.8 million to £21.0 million and EBITDA was £4.9 million (2015: £6.1 million).

The Group delivered an operating profit of £1.2 million (2015: £1.6 million).

Self-published revenue
£21.0m

Investment in non-current assets
£9.2m

EBITDA
£4.9m

An adjusted operating result is used as the Board's measure of profitability in order to provide an improved insight into performance by reflecting the underlying cash use of the business whilst in transition. The adjusted operating result is stated after adding back material non-cash overheads and expensing capitalised development costs.

The adjusted operating result for the year was a loss of £2.7 million (2015: profit £2.5 million), reflecting the Group's planned increased investment in its self-published franchises in the year.

Basic earnings per share were 4.2 pence per share compared to 4.9 pence 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) the basic adjusted loss per share was 8.0 pence (2015: positive 7.4 pence per share).

Following a full year of *Planet Coaster* development, the increased amount of development effort related to future self-published releases resulted in 51% of all development man months contributing to releases outside the period (2015: 30%).

Both Frontier Developments Inc. (USA & Canada) continued to provide publisher support services for the Group.

At 31 May 2016 the Group's Employee Benefit Trust had an interest in 230,400 Ordinary Shares (2015: 24,455 Ordinary Shares).

The expenses stated in the income statement have been reclassified to allow comparability with other companies in the sector. Cost of sales is now represented by sales commission, royalties payable, online payment charges and physical merchandise costs. Operating costs have been analysed into selling and distribution, research and development, administration, and other expenses.

Accounting policies and significant accounting estimates have been moved to the appropriate notes in the financial statements.

CASH AND CASHFLOW

The Group's cash balance at the end of the financial year was £8.6 million (2015: £10.5 million) with movements summarised as follows:

Summarised cashflow statement	2016 £m	2015 £m
Cash at start of period	10.5	8.6
Operating cashflow	7.3	7.3
Investing activities	(9.7)	(5.1)
Financing activities	0.3	–
Exchange differences	0.2	(0.3)
Movement in net cash balance inc. borrowings	(1.9)	1.9
Cash at end of period	8.6	10.5

The Group's operating cashflow was £7.3 million, supported by continued sales of *Elite Dangerous* franchise products, and pre-orders for *Planet Coaster*.

The Group invested £9.2 million in non-current assets, including development costs for the *Elite Dangerous* and *Planet Coaster* franchises plus the continued investment in our underlying COBRA technology. The loan to the Employee Benefit Trust increased by £0.6 million to meet the exercise of options related to the expiry options, mainly issued in 2005.

A working capital improvement of £2 million was mainly supported by an increase in deferred income of £1.5 million, shown in note 22. Funding and other sources comprised share issues and tax credits received. Financing from share issues, warrants and options exercised amounted to £0.3 million.

The overall result was a decrease of £1.9 million in net cash and cash equivalents to £8.6 million, as a result of the Group's continued investment and growth plan.

Frontier's simplified cash movements can be represented as follows:

Movement in cash balances	2016 £m	2015 £m
Customer receipts	19.4	21.1
Funding and other sources	0.7	0.3
Incoming funds	20.1	21.4
Salaries	11.9	11.3
Overhead, other expenses, tax and currency differences	10.1	8.2
Outgoing flows	22.0	19. 5
Movement in net cash balance inc. borrowings	(1.9)	1.9

REVENUE AND REVENUE MIX

Group revenue is now generated from our self-publishing activities plus associated merchandise and some trailing royalties from previous successful titles. Self-published revenue grew to be substantially all the Group's total revenue.

The prior year included £3.4 million from external publisher work, for which as planned we have not sought replacement contracts.

Total revenue was 6% lower at £21.4 million (2015: £22.8 million).

Revenue	2016 £'000	2015 £'000	% change	2014 £'000
Revenue	21,363	22,763	(6%)	9,541

Revenue mix	2016 £'000	2015 £'000	% change	2014 £'000
Self-published	20,958	18,558	13%	424
External publishers	–	3,429	(100%)	7,707
Royalties	241	322	(25%)	1,366
Merchandise and other	164	454	(64%)	44
Total revenue	21,363	22,763	(6%)	9,541

Merchandise and other income in FY15 included recognition of revenue from the *Elite Dangerous* Kickstarter crowd-funding campaign in conjunction with the public release of the game.

Self-published revenue

Self-published revenue was substantially derived from product sales within the *Elite Dangerous* franchise and related digital in-game purchases, with the Alpha proportion of pre-orders for *Planet Coaster* and *RollerCoaster Tycoon 3* sales on the iOS platform also contributing.

Deferred income of £0.2 million from prior *Elite Dangerous* lifetime pass sales was released to the income statement in the year from the brought forward balance of £0.7 million. During the financial year £1.7 million of deferred income was carried forward into future years, arising from a proportion of *Elite Dangerous: Horizons* and *Elite Dangerous* lifetime pass sales, and pre-orders of the release version of *Planet Coaster*. Deferred revenue for the year was therefore £2.2 million (2015: £0.7 million).

Royalty income continued to accrue from sales under prior work-for-hire agreements on the *RollerCoaster Tycoon 3* and *Kinect Disneyland Adventures* titles, published by Atari and Microsoft respectively. The Group receives royalty reports 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. Royalty revenues were £0.2 million (2015: £0.3 million).

FINANCIAL REVIEW CONTINUED

GROSS MARGIN BY REVENUE STREAM

The digital distribution of products is undertaken from Frontier's own online store and third party stores (Steam, Xbox, iOS, Amazon, Oculus). Commission payments for such third party distribution platforms are typically around 30% of net revenue.

Distribution to USA and Russian customers of the Frontier store is undertaken by the wholly-owned subsidiary Frontier Developments Inc. (USA).

Gross margin	2016 £'000	2015 £'000	% change
Self-published	16,061	17,078	(6%)
External publishers	–	3,429	(100%)
Royalties, merchandise & other	204	137	49%
Gross margin	16,265	20,644	(21%)

Overall gross margin was 76% (2015: 91%), reflecting a shift to third party platform distribution which represented 75% of the value of self-published orders (2015: 28%) as the Group expanded the audience for *Elite Dangerous* via such third party channels.

Gross margin is stated after deduction of third party commissions / royalties, payment charges and merchandise product costs.

Gross margin reported in last year's Annual Report has been reclassified in order to align with common industry gross margin reporting practice and as a result there are no costs attributed to external publisher work in the comparative period shown above. Costs of £2.5 million disclosed in cost of sales in the prior year associated with publisher revenues have been moved to development costs within the reclassified comparative shown in the income statement.

PROFITABILITY

Operating profit was £1.2 million compared with £1.6 million in the prior period. EBITDA was £4.9 million compared with £6.1 million in the prior year.

The Board monitors performance on an adjusted operating profit basis in order to focus on the cash value drivers of the business whilst in transition. For adjusted operating profit the adjusting items were depreciation and amortisation, fair value on forward exchange contracts, R&D capitalised, share-based compensation, and tax credits due, offset against administration costs.

The measures of EBITDA and adjusted EBITDA are shown below as sub totals for comparative purposes.

The reconciliation is as follows:

	2016 £'000	2015 £'000	%	2014 £'000
Operating result	1,238	1,566	(21%)	(1,705)
Depreciation	262	271		225
Amortisation and impairment	3,376	4,246		1,802
EBITDA	4,876	6,083	(20%)	322
Share-based compensation	738	767		286
Fair value adjustments	551	72		32
Gain on sale of investment	–	1		(21)
Funding costs / listing expenses	–	–		217
Dilapidations provision	13	37		36
Subsidiary set-up fees	–	7		–
EBITDA adjusted	6,178	6,967	(11%)	872
R&D capitalised	(8,857)	(4,338)		4,035
Tax credits deducted from administration expenses	(13)	(163)		(307)
Adjusted operating (loss) / profit	(2,692)	2,466	(209%)	(3,470)

Amortisation has reduced as in the period up to the release of *Elite Dangerous*, in December 2014 it was charged at a higher rate to reflect the development costs funded by the Kickstarter campaign of 2012.

The adjusted operating result is stated after adding back material non-cash overheads and expensing capitalised development costs. The adjusted operating result was a loss of £2.7 million compared to a profit of £2.5 million in the prior year (and 2016 consensus figure of £6.9 million loss) reflecting the investment in the period where 51% of development activity was for product not yet fully released (2015: 30%). The Group was able to recognise income related to the delivery of a content update for *Elite Dangerous: Horizons* prior to the financial year end.

The Group's policy is to hedge 50% of estimated net income in foreign currencies (mainly US$ and €) on a rolling 12 month basis in order to manage the risk of currency fluctuations. Although the recognised forward sterling contracts increased cost in the year, the Group expects to benefit from a falling £ on the unhedged proportion.

The increase in R&D capitalised reflects the change to all development being for self-published projects.

FINANCE INCOME

Interest receivable from the Group's cash resources was £0.04 million (2015: £0.05 million), reflecting both lower cash balances in the business and a lower interest rate environment worldwide.

INCOME TAX

Frontier is able to take advantage of cash-based tax credits in the UK for the creative service industry (Video Games Tax Relief) available from April 2014. With Video Games Tax Relief, eligible claims based on cultural tests administered by the British Film Institute (BFI) are made after the completion of a project and are based on relevant development expenses over the project life (up to two years).

Frontier intends to recognise claims once they have been submitted to HMRC along with the certification from the BFI. In the first year since this is a new tax relief, acknowledgement by HMRC is also sought before recognition. Frontier has currently made Video Games Tax Relief claims totalling £0.9 million, £0.2 million of which have been received post year end and thus recognised in full. The remaining £0.7 million has not been recognised as we await acknowledgement from HMRC.

The Group had a tax credit of £0.16 million for current taxes within which is a liability of £0.05 million relating to overseas tax and tax credits of £0.21 million recognised in the UK. In the prior year the Canadian operation incurred a £0.01 million charge.

There is no deferred tax liability in the Group for the financial year ended May 2016 (prior year £0.04 million in Canada).

The parent company continues to hold unused tax losses of £5.6 million to set against future taxable profits generated in the UK (2015: £5.9 million).

EARNINGS PER SHARE

The basic earnings per share for 2016 was 4.2 pence per share (2015: 4.9 pence) based on a weighted average number of shares of 33.8 million (2015: 33.5 million).

On a diluted basis earnings per share was 4.1 pence (2015: 4.7 pence) based on a weighted average number of shares of 35.3 million (2015: 35.3 million).

The adjusted basic earnings per share is based on the adjusted operating result with all development spend expenses shown on page 24. The adjusted loss per share was 8.0 pence compared to the prior period of 7.4 pence of earnings per share. On a diluted basis the adjusted loss per share is 8.0 pence (2015: earnings 7.0 pence).

NON-CURRENT ASSETS AND RESEARCH AND DEVELOPMENT EXPENDITURE

Investment in the Group's own IP capitalised in the year rose to £8.9 million in line with our transition plans, reflecting Frontier's commitment to a strategic software development programme in respect of *Elite Dangerous*, *Planet Coaster* and COBRA technology. Including the acquired rights, £11.5 million of self-published net book value is represented by the *Elite Dangerous* franchise, and £3.7 million for *Planet Coaster*, (scheduled for Q4 2016).

Research and development expensed was £0.6 million (2015: £0.8 million).

Additions for tangible assets mainly comprised computer equipment.

SHARE ISSUES

Employees converted 0.5 million share options into Ordinary Shares up to the end of May 2016; exercise proceeds were £0.4 million, and of these conversions 0.3 million of Ordinary Shares were transferred under arrangements with the Employee Benefit Trust, representing exercise proceeds of £0.2 million. The Group granted 0.2 million share options in the year (2015: 1.5 million) under CSOP and unapproved plans.

288,000 share options vested in the year.

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 2016 the loan balance drawn down was £1.4 million, and the trust owned 230,400 Ordinary Shares.

CURRENT ASSETS

Trade and other receivables were £0.6 million lower at £2.4 million, caused by a reduction in local digital media tax credits due in Canada being reported before tax. Other short-term assets are represented by current tax assets in both the UK and Canada, which are reported via the tax line.

For cash and cash equivalents see note 16.

CURRENT AND NON-CURRENT LIABILITIES

Trade and other current liabilities were £3.1 million (2015: £3.1 million). Current tax liabilities increased in Canada, whilst a reduction in trade payables was offset by a fair value provision for forward exchange rate contracts.

Deferred income was £2.2 million (2015: 0.7 million) with £1.1 million (2015: £0.6 million) being reported in non-current liabilities, being revenue from the sale of lifetime passes which are being recognised annually over the expected length of the franchise.

The Group did not recognise any deferred tax liabilities in the year.

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. Overseas deferred tax of £0.04 million crystallised in the year, all based in Canada.

Dilapidation provisions are ongoing following the renewal of the leases in 2015 with termination dates of 2020.

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

DAVID WALSH
Chief Operations Officer
6 September 2016

NEIL ARMSTRONG
Company Secretary and Chief Finance Officer
6 September 2016

DIRECTORS' BIOGRAPHIES


1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1. 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 he continues as CEO today. Other current positions include Non-Executive Directorships at Accesso Technologies plc, Funderbeam Limited and Raspberry Pi Trading Limited, and he is Group Strategy Advisor at 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

4. JONNY WATTS

Chief Creative Officer

Joined: November 1998

Jonny has over 30 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 25 published games such as *Sensible Soccer* and *Cannon Fodder*, along with Frontier's suite of games, including *Rollercoaster Tycoon 3*, *Elite Dangerous* and the forthcoming *Planet Coaster*. 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 35 million people worldwide. Jonny holds zoology and computer science degrees, is an active member of BAFTA, including serving as a judge for seven years, and an advocate of supporting young game developers. Jonny joined the Board in February 2012.

Committees

n/a

2. DAVID BRABEN OBE

Founder and CEO
Founding shareholder January 1994

David is the co-author of the seminal *Elite* title and has over 34 years' experience in the gaming industry. David is also one of the six founding trustees 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 low cost 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

3. 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. (USA), Frontier's wholly owned US subsidiary.

Committees
Remuneration

CORPORATE DIRECTORY

DIRECTORS
Mr D R Gammon
Dr. D J Braben
Mr D J Walsh
Mr J F Watts
Mr C W A Cotton

COMPANY SECRETARY AND CFO
Mr N R Armstrong

REGISTERED OFFICE
306 Science Park
Milton Road
Cambridge
CB4 0WG

REGISTERED COMPANY NUMBER
02892559
(Incorporated and registered in England and Wales)

5. CHARLES COTTON

Non-Executive Director
Joined: July 2016

Charles has a successful worldwide track record in high-growth technology companies. He was a Supervisory Board member of Euronext Amsterdam listed Tele Atlas which was sold to TomTom for €2.8 billion in 2008; Executive Chairman of NASDAQ listed GlobespanVirata Inc.; and CEO of Virata Corp. which he took public on NASDAQ in 1999 and achieved a market capitalisation of $5 billion in 2000.

Charles is an active member of the Cambridge technology community, holding a range of technical and financial roles. He also founded and is currently Chairman of Cambridge Phenomenon International Ltd and has co-authored two books; The Cambridge Phenomenon 50 Years of Innovation and Enterprise and The Cambridge Phenomenon: Global Impact.

Committees
Remuneration

6. 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. (USA), Frontier's wholly owned US subsidiary.

Committees
Audit, Remuneration, Nominations

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MAY 2016

The Directors present their report for the Group and Company together with the financial statements for the year to 31 May 2016. 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 9 to 19). 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 did not renew the revolving credit facility with Barclays Bank plc of £1 million, which expired on 8 May 2016.

SHARE ISSUES
Details of shares issued during the year are given in note 17 to the financial statements. The Company has one class of Ordinary Shares 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 240 pence per share.

David Braben sold 750,000 Ordinary Shares at 240 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 19,370 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 2016 and their interest in the share capital of the Company were as follows:

Name	2016 Number	2016 %	2015 Number	2015 %
David Gammon*	311,720	0.9	291,720	0.9
David Braben	17,160,953	50.3	17,910,953	53.3
David Walsh*	1,245,820	3.7	1,245,820	3.7
Jonathan Watts	55,390	0.2	44,760	0.1
Jonathan Milner*	662,104	1.9	662,104	2.0
Total	19,435,987	57.0	20,155,357	60.0

* 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 £9.5 million in the year (2015: £5.1 million).

DIVIDEND

The Directors are not recommending the payment of a dividend at this time (2015: £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.

EMPLOYMENT POLICIES

The Group is committed to following UK employment law for its Cambridge-based operations, the Canada Labour Code for its Halifax, Nova Scotia operations and applicable labor codes for its US operations based in Nevada and Kansas.

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 2016 the following, other than the Directors whose shareholdings are listed on page 28, 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	9.6
Chris Sawyer	1,283,726	3.8
Amati Venture Capital	1,073,230	3.1

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
6 September 2016

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MAY 2016

The Board of Frontier Developments plc established Corporate Governance arrangements through consideration of best practice guidelines and aspects of the UK Corporate Governance Code relevant to the Company. Progress is reviewed against the 12 principles of Corporate Governance issued by the Quoted Companies Alliance issued in the 2013 Corporate Governance Code for Small and Mid-sized Quoted Companies. Being an AIM-listed company Frontier is not required to comply with the UK Corporate Governance Code.

THE BOARD

The Board is responsible for the long-term growth and profitability of Frontier Developments plc. Among its responsibilities it works with management to set corporate values and to develop strategy, including deciding its risk management policy and financial objectives.

A schedule of matters reserved for the Board's resolution details key aspects of the Company's affairs that are not delegated beyond the Board (including, among other things, approval of business plans and budgets, material expenditure and alterations to share capital).

Approximately half of the time at Board meetings is set aside for Core Strategic issues. At least two meetings a year have extended time allowed where the focus is predominantly on Core Strategic issues.

The following statements set out the principles and methods to which it adheres.

BOARD MEETINGS AND PRACTICES

The Board seeks to meet formally at least nine times a year including two extended strategic review days. The entire Board is invited to attend all meetings. In the financial year to 31 May 2016 the Board met on nine occasions.

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

The matters reserved for the attention of the Board include:

- overall business strategy;
- 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, 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;
- appointment and performance review of key advisors; and
- approval of letters of recommendation for the Employee Benefit Trust in the respect of the operation of share option schemes.

BOARD COMPOSITION

The Board of Frontier Developments plc is comprised of the Non-Executive Chairman, the Chief Executive Officer and two other Executive officers, one further Non-Executive Director and the Company Secretary. As per 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.

The composition of the Board of Directors is illustrated on pages 26 and 27. There were no changes in membership during the financial year 2015/16, however, on 1 July 2016, Jonathan Milner stepped down as Non-Executive Director and Charles Cotton was appointed in his place as NED.

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.

BOARD COMMITTEES

The committees report regularly to the Board on the performance of the activities they have been assigned.

Audit Committee

The Audit Committee comprises only independent Non-Executive Directors; its members are: David Gammon and Neil Armstrong, supported by Amanda Alsop (Group Accountant).

The Audit Committee determines the terms of engagement of the Company's Auditor and, in consultation with the Auditor, the scope of the audit. It will receive and review reports from management and the Auditor relating to the interim and annual accounts as well as 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.

In the financial year to 31 May 2016 the Audit Committee met on four occasions, including three meetings with the Auditor present.

Key areas of activity

- Financial reporting
- Internal control and risk management reviews
- External audit
- Significant audit issues – revenue recognition
- Treasury policy and foreign exchange risk review

ATTENDANCE AT MEETINGS

	Board	Remuneration Committee	Nominations Committee	Audit Committee
Number of meetings	9	5	2	4
David Gammon	9	5	2	4
David Braben	9	–	2	–
David Walsh	9	5	–	–
Jonathan Watts	9	–	–	–
Jonathan Milner	9	4	–	–
Neil Armstrong	9	5	2	4

Remuneration Committee

During the financial year the Remuneration Committee comprised David Gammon, David Walsh, Jonathan Milner, Neil Armstrong and, as required, Yvonne Dawes (HR Manager). Charles Cotton replaced Jonathan Milner on 1 July 2016.

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, in addition to significant employee benefits, such as pensions, medical insurance and share option schemes.

In the financial year to 31 May 2016 the Remuneration Committee met on five occasions.

Key areas of activity

- Review of staff benefits through employee surveys and benchmarking
- Introducing performance related pay for Executives

Nominations Committee

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

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

In the financial year to 31 May 2016 the Nominations Committee met on two occasions.

Key areas of activity

- Assessing the need for further Non-Executives
- Review of senior positions required to strengthen the organisation

AUDITOR INDEPENDENCE

Frontier Developments' external Auditor is Grant Thornton UK LLP, who has served the Company since 2012. 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, objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements as well as developing and implementing policy on the engagement of the external Auditor to supply non-audit services.

The Audit Committee monitors procedures to ensure the rotation of external audit partners every five years and audit managers every seven years.

SENIOR MANAGEMENT AND GROUP FUNCTIONS

Frontier's Senior Management are involved in multiple functions within the Company.

They are responsible for reviewing the overall organisational structure of the Company, as well as refining and implementing the recruitment and retention programme in order to identify and hire the right candidates as required in addition to retaining existing staff members.

INTERNAL CONTROL AND ASSESSMENT OF BUSINESS RISK

The systems for internal control and risk management processes are designed to manage and mitigate risks that may impact achievement of the Company's strategic objectives. Such systems can only provide a reasonable but not absolute level of assurance against material misstatement or loss.

The strategic risks are regularly reviewed by the Board and a Corporate Risk Register (CRR) is maintained.

The risk assessment process is facilitated by the COO who holds and appraises the Risk Register at least once a year.

A further review is then undertaken with Senior Management and the Register itself is updated for the Executive Team to consider.

Once the review has concluded the revised CRR is forwarded to the Audit Committee which assesses the updated register and confirms the key risks. A proposal for updating the risks reported in the Annual Report is then drawn up; the Audit Committee will then take its recommendations to the Board on key risks and the reporting thereof.

CONTROL ENVIRONMENT AND INTERNAL AUDIT

The Group has established operating procedures appropriate to its size and structure for reporting both 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 business activities, the Group does not currently believe that an internal audit function would be cost effective. The Audit Committee considers the need annually and will advise the Board as and when it feels this position is required.

INVESTOR RELATIONS

The Company places considerable importance on communication with Shareholders and maintains regular contact with its larger institutional Shareholders through its investor relations team, meetings with the Executive Directors and the Chairman and through investor events.

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 hold external (London based) and on-site meetings to demonstrate *Elite Dangerous: Horizons* and *Planet Coaster* to both investors and potential investors.

The Group uses the Annual General Meeting to encourage attendance and participation by Shareholders. In order to support internal capacity building for investor relations the Group has continued to be a member of the Quoted Companies Alliance and the IR Society.

The latest results presentation is available through the Company's investor relations website.

ANNUAL GENERAL MEETING

The AGM will be held at:
306 Cambridge Science Park
Milton Road
Cambridge
CB4 0WG
UK

On:
18 October 2016

At:
9.15am

The Company's Annual General Meeting ("AGM") affords shareholders the opportunity to question the Chairman and the Board. The Chairmen of the Audit, Nominations and Remuneration Committees are also available to answer questions.

All voting at the meeting will be conducted on a poll where every shareholder present in person or via proxy will have one vote per share held. The Group will convey the results of the poll via RNS following the AGM.

Shareholders are invited to submit written questions in advance of the meeting. Questions should be sent to the Company Secretary, Neil Armstrong, Frontier Developments plc 306 Cambridge Science Park, Milton Road, Cambridge CB4 0WG, UK or via email to IR@frontier.co.uk

Details of resolutions to be proposed at the meeting are set out in the Notice of General Meeting on pages 65 to 66.

Notice of the AGM, the Form of Proxy and the Annual Report are sent to shareholders at least 20 working days before the AGM via post and online at AR2016.frontier.co.uk

REMUNERATION REPORT
FOR THE YEAR ENDED 31 MAY 2016

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. After the financial year end Charles Cotton replaced Jonathan Milner and was appointed as chairman of the committee.

The Remuneration Committee is responsible for the following functions:

- setting of remuneration for Directors and officers, including pay, annual cash 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."

The Remuneration Committee commissioned a report from KPMG LLP on Executive Incentives, bonus schemes and Long Term Incentive plans in order to bring incentives in line with the Group's strategic objectives and investor interests by way of linking the majority of remuneration with market based performance criteria and structure commonly operated by AIM and FTSE 350 companies.

Having reviewed the report the Remuneration Committee has decided to revise the annual bonus scheme to operate from 1 June 2016 based on EPS performance against market consensus. Arrangements for a Long Term Incentive Plan based on share price performance remain under consideration.

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.

The Remuneration Committee is pleased to report on progress against the policy objectives as follows:

- the move to median level pay as benchmarked by KPMG LLP's survey of Executive remuneration in AIM companies (March 2016);
- from 1 June 2016 the introduction of an annual cash bonus scheme based on market consensus EPS; and
- plans to set up a new Executive share option scheme based on share price performance.

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 last reviewed to take effect from 1 June 2014. Having considered the results of KPMG's survey of Executive remuneration in AIM companies, an update of base pay will be implemented to take effect from 1 June 2016.

Annual bonus

A bonus payment totalling £0.07 million was made for the year to May 2015, paid in December 2015 representing 3.5% of the 5% eligible pool. The interim scheme adopted for the year to 31 May 2015 is based on a 5% pool of profit before tax and bonus allocated between Executive Directors and officer. The scheme operates in the same way as the staff contractual scheme whereby an element is paid pro rata and the remainder discretionary.

Share options

No further share option grants were made to Executive Directors and the Non-Executive Directors in the year to 31 May 2016.

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 contribution £'000	Taxable benefits £'000	2016 Total £'000	2015 Total £'000
Executive						
David Braben	180	20	2	1	203	183
David Walsh	180	20	2	1	203	183
Jonathan Watts	180	29	2	1	212	183
Non-Executive						
David Gammon	50	–	–	–	50	50
Jonathan Milner	30	–	–	–	30	30
Total	620	69	6	3	698	629

The expense recognised in the statement of comprehensive income for the Directors' share options including Non-Executive Directors' was £207,765 (2015: £375,525) with the amount attributable to the highest paid Director being £46,149 (2015: £34,612).

The gain attributable to Directors on share options in the year at the date of exercise was £31,573 (2015: £1,246).

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
6 September 2016

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 2016 which comprise the consolidated statement of cashflows, the Company statement of cashflows, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the Company statement of financial position, the consolidated statement of changes in equity, the 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 28, 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 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 2016 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
12 September 2016

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MAY 2016

	31 May 2016 £'000	31 May 2015 £'000
Operating activities		
Cash generated from operations (see below)	**7,475**	7,334
Finance income	**(37)**	(53)
Taxes (paid) / received	**(121)**	23
Cashflow from operating activities	**7,317**	7,304
Investing activities		
Purchase of property, plant and equipment	**(233)**	(289)
Expenditure on intangible assets	**(8,965)**	(4,385)
Proceeds from disposal of non-derivative financial assets	**–**	36
Employee Benefit Trust investment	**(563)**	(551)
Interest received	**37**	53
Cashflow from investing activities	**(9,724)**	(5,136)
Financing activities		
Repayment of interest-free loan	**–**	(158)
Proceeds from issue of share capital	**276**	159
Cashflow from financing activities	**276**	1
Net change in cash and cash equivalents from continuing operations	**(2,131)**	2,169
Cash and cash equivalents at beginning of period	**10,478**	8,612
Exchange differences on cash and cash equivalents	**263**	(303)
Cash and cash equivalents at end of period	**8,610**	10,478

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 2016 £'000	31 May 2015 £'000
Profit after tax	**1,432**	1,647
Depreciation and amortisation	**3,638**	4,517
Fair value adjustments	**551**	31
Profit on disposal of fixed assets and available for sale assets	**–**	1
Proceeds from the sale of non-current assets	**–**	16
Share-based payment expenses	**738**	767
Taxation	**(162)**	(190)
Foreign exchange	**(267)**	242
Operating cashflow before changes in working capital	**5,930**	7,031
Net changes in working capital:		
Change in inventories	**4**	2
Change in trade and other receivables	**603**	74
Change in trade and other payables	**925**	190
Change in provisions	**13**	37
Cash generated from operations	**7,475**	7,334

COMPANY STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MAY 2016

	31 May 2016 £'000	31 May 2015 £'000
Operating activities		
Cash generated from operations (see below)	6,572	7,468
Finance income	(35)	(50)
Taxes (paid) / received	(148)	–
Cashflow from operating activities	6,389	7,418
Investing activities		
Purchase of property, plant and equipment	(233)	(287)
Expenditure on intangible assets	(8,965)	(4,385)
Proceeds from disposal of non-derivative financial assets	–	36
Employee Benefit Trust investment	(563)	(551)
Interest received	35	50
Cashflow from investing activities	(9,726)	(5,137)
Financing activities		
Proceeds from issue of share capital	276	159
Cashflow from financing activities	276	159
Net change in cash and cash equivalents from continuing operations	(3,061)	2,440
Cash and cash equivalents at beginning of period	10,203	7,997
Exchange differences on cash and cash equivalents	389	(234)
Cash and cash equivalents at end of period	7,531	10,203

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 2016 £'000	31 May 2015 £'000
Profit after tax	1,531	1,584
Depreciation and amortisation	3,638	4,485
Fair value adjustments	551	–
Loss on disposal of fixed assets and available for sale assets	–	3
Share-based payment expenses	745	761
Taxation	(217)	(7)
Foreign exchange	(389)	233
Operating cashflow before changes in working capital	5,859	7,059
Net changes in working capital:		
Change in inventories	4	2
Change in trade and other receivables	185	676
Change in trade and other payables	511	(306)
Change in provisions	13	37
Cash generated from operations	6,572	7,468

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2016

	Notes	31 May 2016 £'000	31 May 2015 £'000
Revenue	5	21,363	22,763
Cost of sales		(5,098)	(2,119)
Gross profit		16,265	20,644
Other income		3	3
Selling and distribution expenses		(3,887)	(2,749)
Administrative expenses		(4,154)	(4,561)
Research and development expenses		(6,989)	(11,771)
Operating profit		1,238	1,566
Finance income	24	37	53
Profit before tax	6	1,275	1,619
Income tax	25	157	28
Profit for the period attributable to the equity holders of the parent		1,432	1,647

All the activities of the Group are classified as continuing.

	Notes	31 May 2016 p	31 May 2015 p
Earnings per share	26		
Basic earnings per share		4.2	4.9
Diluted earnings per share		4.1	4.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2016

	31 May 2016 £'000	31 May 2015 £'000
Profit for the period	1,434	1,647
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	(4)	(27)
Total comprehensive income for the period attributable to the equity holders of the parent	1,428	1,620

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2016 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2016 £'000	31 May 2015 £'000
Non-current assets			
Intangible assets	7	**16,690**	11,101
Property, plant and equipment	9	**304**	333
Total non-current assets		**16,994**	11,434
Current assets			
Inventories	13	**9**	13
Trade and other receivables	14	**2,443**	3,046
Other short-term assets	15	**376**	50
Cash and cash equivalents	16	**8,610**	10,478
Total current assets		**11,438**	13,587
Total assets		**28,432**	25,021
Equity and liabilities			
Equity			
Share capital	17	**170**	168
Share premium account		**14,476**	13,963
Equity reserve		**579**	633
Foreign exchange reserve		**(61)**	(57)
Retained earnings		**7,600**	6,180
Total equity		**22,764**	20,887
Liabilities			
Current			
Trade and other payables	20	**3,073**	3,107
Deferred income	22	**1,085**	96
Current tax liabilities	21	**89**	–
Total current liabilities		**4,247**	3,203
Non-current			
Provisions	23	**273**	260
Deferred income	22	**1,148**	627
Deferred tax	12	**–**	44
Total non-current liabilities		**1,421**	931
Total liabilities		**5,668**	4,134
Total equity and liabilities		**28,432**	25,021

These financial statements were approved by the Directors on 6 September 2016 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 2016 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2016 £'000	31 May 2015 £'000
Non-current assets			
Intangible assets	7	16,690	11,101
Property, plant and equipment	9	304	333
Total non-current assets		16,994	11,434
Current assets			
Inventories	13	9	13
Trade and other receivables	14	2,586	2,771
Other short-term assets	15	376	13
Cash and cash equivalents	16	7,531	10,203
Total current assets		10,502	13,000
Total assets		27,496	24,434
Equity and liabilities			
Equity			
Share capital	17	170	168
Share premium account		14,476	13,963
Equity reserve		579	633
Retained earnings		7,133	5,607
Total equity		22,358	20,371
Liabilities			
Current			
Trade and other payables	20	3,103	3,080
Deferred income	22	822	96
Total current liabilities		3,925	3,176
Non-current			
Provisions	23	273	260
Deferred income	22	940	627
Total non-current liabilities		1,213	887
Total liabilities		5,138	4,063
Total equity and liabilities		27,496	24,434

These financial statements were approved by the Directors on 6 September 2016 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 2016

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
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
Increase in equity in relation to options issued	–	–	738	–	–	738
Net loss on EBT shares	–	–	(412)	–	–	(412)
Own shares held by the EBT	–	–	(392)	–	–	(392)
Share-based payment transfer	–	–	12	–	(12)	–
Issue of share capital less expenses	2	513	–	–	–	515
Transactions with owners	2	513	(54)	–	(12)	449
Profit for the year	–	–	–	–	1,432	1,432
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(4)	–	(4)
Total comprehensive income for the year	–	–	–	(4)	1,432	1,428
At 31 May 2016	**170**	**14,476**	**579**	**(61)**	**7,600**	**22,764**

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

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2016

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
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
Increase in equity in relation to options issued	–	–	745	–	745
Net loss on EBT shares	–	–	(412)	–	(412)
Own shares held by the EBT	–	–	(392)	–	(392)
Share-based payment transfer	–	–	5	(5)	–
Issue of share capital less expenses	2	513	–	–	515
Transactions with owners	2	513	(54)	(5)	456
Profit for the year	–	–	–	1,531	1,531
Total comprehensive income for the year	–	–	–	1,531	1,531
At 31 May 2016	**170**	**14,476**	**579**	**7,133**	**22,358**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2016

1. CORPORATE INFORMATION
Frontier Developments plc ("the Group") develops 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., are based in Canada and 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.

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 expenses stated in the income statement have been reclassified to allow comparability with other companies in the sector. Cost of sales is now represented by sales commission, royalties payable, online payment charges and physical merchandise costs. Operating costs have been analysed into selling and distribution, research and development and administration expenses.

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.

3. PRINCIPAL ACCOUNTING POLICIES
The majority of the principal accounting policies have been repositioned to the relevant notes to the financial statements.

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.

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.

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 2018)*
- IFRS 16 Leases (effective 1 January 2019)*
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016) (Endorsed)
- Annual Improvements to IFRSs 2010–2012 Cycle (IASB effective date generally 1 July 2014) (EU mandatory effective date is financial years starting on or after 1 February 2015) (Endorsed)
- Annual Improvements to IFRSs 2012–2014 Cycle (effective 1 January 2016) (Endorsed)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (effective 1 January 2016) (Endorsed)
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2016) (Endorsed)
- Disclosure Initiative: Amendments to IAS 7 Statement of Cash Flows (effective 1 January 2017)
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)*

* Not yet EU endorsed.

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 except for IFRS 16. The Group is considering early implementation in line with the timing of its strategic intent to relocate into one building.

The Group does not expect IFRS 15 to have a material impact on the business as the key principles have already been adhered to within the current revenue recognition policy.

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 have been moved to notes 5, 7 and 12 of the financial statements.

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 one operating segment, being self-published work, and royalties plus merchandise (in the prior financial year the Group recognised external publisher work as a separate segment, but has transitioned the business away from that type of work). 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 2016 £'000	31 May 2015 £'000
United Kingdom	3,271	5,795
United States of America	8,787	7,687
Rest of the world	9,305	9,281
	21,363	22,763

The Group's gross profit by each revenue stream is as follows:

	31 May 2016 £'000	31 May 2015 £'000
Self-published	16,061	17,078
External publishers	–	3,429
Royalties, merchandise and other income	204	137
	16,265	20,644

5. SEGMENT INFORMATION CONTINUED

For further analysis of gross margin per revenue stream see Financial review page 24.

All of the Group's non-current assets are held within the UK.

In both 2015 and 2016 there were no customers whose revenue accounted for more than 10% of the Group and Company's total revenue, although the Group bears the credit risk associated with sales made through distribution platforms.

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

	31 May 2016 £'000	31 May 2015 £'000
External publishers	–	3,429
Self-published	20,958	18,558
Royalties	241	322
Other	164	454
	21,363	22,763

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 release of full games and early access versions of self-published games royalties from published games, and associated merchandise.

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

Revenue from pre-orders of games and 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.

Revenue earned from royalties under distribution agreements is 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.

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

	31 May 2016 £'000	31 May 2015 £'000
Operating profit	1,238	1,566
Depreciation	262	271
Amortisation and impairment	3,376	4,246
EBITDA	4,876	6,083
Share-based compensation	738	767
Dilapidation provision	13	37
Fair value adjustments	551	72
Gain on investment	–	1
US set-up fees	–	7
Adjusted EBITDA	6,178	6,967
R&D capitalised	(8,857)	(4,338)
Tax credits deducted from administration expenses	(13)	(163)
Adjusted Operating (loss) / profit	(2,692)	2,466

Accounting policies

Segment reporting

The Group identifies one operating segment as 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.

Significant accounting estimates

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 based on man months to complete and is moved to deferred income until the final version is released to the public.

Where the Group has made a self-published title containing a season of content (a number of periodic releases) recognition is made by reference to delivery of performance obligations which use a measure of development man months incurred per periodic release as an estimate of delivery of these performance obligations.

6. PROFIT BEFORE TAX

	31 May 2016 £'000	31 May 2015 £'000
This is stated after charging / (crediting):		
Amortisation and impairment on intangibles	**3,376**	4,246
Depreciation of owned property, plant and equipment	**262**	271
Research and development costs expensed	**609**	287
Auditor remuneration:		
Audit of the parent and Group	**40**	39
Audit related assurance services	**10**	8
Operating leases – land and buildings	**655**	526

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.

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 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
Additions – arising from internal development	398	8,459	108	8,965
Disposals	(774)	–	–	(774)
At 31 May 2016	**3,966**	**21,600**	**1,102**	**26,668**
Amortisation and impairment				
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
Charge for the period	1,127	1,509	96	2,732
Charge for the period for acquired rights	–	644	–	644
Disposals	(774)	–	–	(774)
At 31 May 2016	**2,605**	**6,374**	**999**	**9,978**
Net book value at 31 May 2016	**1,361**	**15,226**	**103**	**16,690**
Net book value at 31 May 2015	2,090	8,920	91	11,101

7. INTANGIBLE ASSETS CONTINUED

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 research and development expenses.

The *Elite* rights acquired from Professional Practice Automation LLP in 2014 are included within self-published software. The net book value of the acquired rights at 31 May 2016 was £4.1 million (2015: £4.8 million).

Accounting policies

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 research and development expenses 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.

Research activities

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

Impairment of intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its 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.

Significant accounting estimates

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 2016 are £16,689,747 (2015: £11,100,568).

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

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

In respect to amortisation, normally self-published titles are amortised on completion of the game, however an exception to this occurs when project funding is obtained via innovative crowd-funded platforms, such as Kickstarter. Such funding is generally seen as 'contributing to make the game happen' and requires the Company to set up a number of pledge levels which include a donation element. When 'donation and intangible' elements of pledge levels are recognised as revenue, an equivalent amount of amortisation charged 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 is applied as amortisation. In the case of *Elite Dangerous* 60% was used and upon release of the game, amortisation reverted to an estimated useful life of six years. In the financial year to May 2016 £1,509,238 of amortisation was recognised for these elements of *Elite Dangerous* (2015: £1,220,085).

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 publisher support services for the Group.

Accounting policy

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 within equity.

9. PROPERTY, PLANT AND EQUIPMENT

Group

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
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
Additions	2	231	–	233
Disposals	–	–	–	–
At 31 May 2016	**235**	**1,576**	**4**	**1,815**
Depreciation				
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
Charge for the period	41	221	–	262
Disposals	–	–	–	–
At 31 May 2016	**213**	**1,294**	**4**	**1,511**
Net book value at 31 May 2016	**22**	**282**	**–**	**304**
Net book value at 31 May 2015	61	272	–	333

9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Company

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
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
Additions	2	231	–	233
Disposals	–	–	–	–
At 31 May 2016	**235**	**1,576**	**4**	**1,815**
Depreciation				
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
Charge for the period	41	221	–	262
Disposals	–	–	–	–
At 31 May 2016	**213**	**1,294**	**4**	**1,511**
Net book value at 31 May 2016	**22**	**282**	**–**	**304**
Net book value at 31 May 2015	61	272	–	333

Depreciation charges are apportioned to the income statement as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	**31 May 2016 £'000**	31 May 2015 £'000
Charge				
Research and development expenses	**253**	241	**253**	213
Administration expenses	**9**	30	**9**	25
Total	**262**	271	**262**	238

Accounting policies

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.

Impairment of property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its individual property, plant and equipment 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 by a review of the expected useful economic life compared to that implied in the amortisation rate.

10. OPERATING LEASES AS LESSEE

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

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Minimum lease payments due within one year	692	670
Minimum lease payments due within one to five years	2,037	2,669
Minimum lease payments due in greater than five years	–	43
Total	2,729	3,382

Group lease payments recognised as an expense during the year ended 31 May 2016: £651,695 (2015: £522,587).

The lease payments relate to the rental contracts for the office buildings, which expire April 2020 and August 2020, a lease agreement for office equipment that will expire in January 2019 and a lease agreement for a commercial vehicle which expires in October 2018. A new lease agreement was entered into for Unit 321-3 Cambridge Science Park and is due to expire in August 2020. Both building leases have flexible break clauses that can be exercised if required by the Group.

During the year the Group entered into two new lease agreements, one for office equipment and another for a commercial vehicle.

Company property lease payments recognised as an expense during the year ended 31 May 2016: £651,695 (2015: £431,227), for the office equipment: 31 May 2016: £3,455 (2015: £nil) and for the commercial vehicle: 31 May 2016: £1,049 (2015: £nil).

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.

Accounting policy

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.

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 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Loans and receivables				
Trade and other receivables	1,598	1,592	1,781	1,656
Cash and cash equivalents	8,610	10,478	7,531	10,203
Total	10,208	12,070	9,312	11,859

Derivative financial instruments

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

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Derivative financial (liabilities) / assets				
Total – Forward exchange contracts – held for trading	(388)	163	(388)	163

The Group used 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 the Group's main banking partner.

11. FINANCIAL ASSETS AND LIABILITIES CONTINUED

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Financial liabilities				
Financial liabilities measured at amortised cost:				
Trade and other payables	2,337	2,806	2,367	2,779
Total	2,337	2,806	2,367	2,779

Accounting policies

Foreign currencies

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 average 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.

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 and cash and cash equivalents.

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

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

Financial assets and liabilities at FVTPL

Derivative financial instruments are financial assets and liabilities measured at fair value through the profit and loss (FVTPL) and are financial instruments 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.

Financial instruments in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets and liabilities 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 other 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).

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).

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 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Accelerated capital allowances	1,885	1,493	1,885	1,493
Short-term temporary differences (restricted)	(267)	(483)	(267)	(483)
Tax losses (restricted)	(1,618)	(966)	(1,618)	(1,010)
Total liability	–	44	–	–
Balance brought forward	44	74	–	–
Effect of tax rate change on opening balance	–	–	–	–
Effect of exchange rate change on opening balance	–	(2)	–	–
Movement in year	(44)	(28)	–	–
Balance carried forward liability	–	44	–	–

No deferred tax asset at 31 May 2016 has been recognised in the statement of financial position for the Group. The deferred tax liability at 31 May 2016 is £nil (2015: £43,689), with the 2015 liability 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 2016 amount to £5.6 million (2015: £5.9 million).

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Deferred tax asset not provided				
Losses and Video Games Tax Relief	(893)	(1,122)	(893)	(1,122)
Total	(893)	(1,122)	(893)	(1,122)

Significant accounting estimate

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.

13. INVENTORIES

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

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Merchandise	9	13
Total inventory	9	13

There is no material difference between the replacement cost of inventory and the amounts stated above. For the year ended 31 May 2016 a total of £144,872 was expensed for merchandise (2015: £453,784).

Accounting policy

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.

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 2016 £'000	31 May 2015 £'000	**31 May 2016 £'000**	31 May 2015 £'000
Trade receivables, gross	**106**	134	**75**	127
Intercompany receivable	**–**	–	**213**	72
Trade receivables, net	**106**	134	**288**	199
Derivative financial instruments	**–**	163	**–**	163
Other receivables	**1,492**	1,458	**1,493**	1,457
Financial assets	**1,598**	1,755	**1,781**	1,819
Prepayments	**779**	770	**779**	752
VAT and other taxes	**66**	521	**26**	200
Non-financial assets	**845**	1,291	**805**	952
Trade and other receivables	**2,443**	3,046	**2,586**	2,771

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

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 2016 £'000	31 May 2015 £'000	**31 May 2016 £'000**	31 May 2015 £'000
Other short-term assets – current tax assets	**376**	50	**376**	13

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	**31 May 2016 £'000**	31 May 2015 £'000
Cash at bank and in hand				
GBP	**6,352**	7,944	**6,352**	7,944
USD	**1,404**	2,229	**877**	2,195
EUR	**301**	55	**301**	55
CAD	**553**	250	**1**	9
Financial assets	**8,610**	10,478	**7,531**	10,203

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.

Accounting policy

Cash and cash equivalents

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

17. EQUITY

Share Capital

Group and Company movements in share capital

Movements in Ordinary Shares are as follows:

	2016 Number '000	2016 Value £'000	2015 Number '000	2015 Value £'000
At 1 June 2014 and 31 May 2015				
Ordinary Shares of 0.5 pence	33,580	168	33,384	167
Shares issued on option exercises	217	1	196	1
Shares issued to Employee Benefit Trust	300	1	–	–
At 31 May 2016	34,097	170	33,580	168

During the year to 31 May 2016 the following share issues were made:

From 1 June 2015 to 31 May 2016 517,084 Ordinary Shares of 0.5 pence were allotted as fully paid at an average premium of 99 pence being the exercise of share warrants by a third party (granted at IPO) and to the Employee Benefit Trust in order to meet employee exercise of share options. The average market value was 223.3 pence on the days of allotment.

Accounting policy

Share capital and reserves

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

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 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 represents the exchange difference on consolidation of overseas subsidiaries.

Retained earnings include all current and prior period retained earnings.

18. EMPLOYEE REMUNERATION

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

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

	31 May 2016 £'000	31 May 2015 £'000
Wages and salaries	10,603	10,933
Social security costs	1,084	1,048
Pension costs	92	84
Share-based compensation	738	767
	12,517	12,832

Included in the above payroll costs for the year ended 31 May 2016 is £7,954,705 (2015: £4,021,039) capitalised within intangible fixed assets (see note 7). Pension costs relate to contributions to the parent company's defined contribution scheme for auto enrolment.

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

	31 May 2016 £'000	31 May 2015 £'000
Research and development	267	258
General and administrative	14	15
	281	273

18. EMPLOYEE REMUNERATION CONTINUED

Remuneration of Directors

	31 May 2016 £'000	31 May 2015 £'000
Directors' emoluments	609	540
Non-Executive fees	20	20
Non-Executive consultancy fees	60	60

Emoluments of highest paid Director

	31 May 2016 £'000	31 May 2015 £'000
Emoluments	209	180

Remuneration of key management personnel

	31 May 2016 £'000	31 May 2015 £'000
Short-term employee benefits		
Salaries including bonuses	1,401	1,321
Social security	178	168
Pension contributions	13	12
Benefits in kind	8	7
Total short-term employee benefits	1,600	1,508
Non-Executive fees	60	50
Share-based compensation charge	351	488
Total	2,011	2,046
Number of key management personnel, including Directors, at the statement of financial position date*	13	14

* Key management of the Group are the Board and senior management (functional heads).

A total of 8,000 share options were issued in the year to key management under the Company Share Option Plan. The number of options exercised for Ordinary Shares in the year ended 31 May 2016 was 223,600 from previous EMI grants.

Accounting policy

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.

19. SHARE OPTIONS

The Group has a 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 similar conditions as the main Company Share Option Plan, except for one tranche issued on 15 September 2014 that had a shorter vesting period of one year.

Date of grant	Scheme type	Period when exercisable	Price in pence	2016 Number	2015 Number
6 December 2005	2002 EMI scheme	2006–2015	67	–	443,400
30 July 2012	2013 EMI scheme	2012–2022	89	722,523	789,223
15 May 2013	2013 EMI scheme	2014–2023	95	224,000	228,000
21 March 2014	Company Share Option Plan	2017–2024	224.5	206,000	228,000
15 September 2014	Company Share Option Plan	2017–2024	257.5	283,950	291,950
15 September 2014	Unapproved	2017–2024	257.5	626,850	649,850
15 September 2014	Unapproved	2015–2024	257.5	288,350	288,350
10 March 2015	Company Share Option Plan	2018–2025	230	175,600	232,100
10 March 2015	Unapproved	2018–2025	230	8,200	8,200
21 September 2015	Company Share Option Plan	2018–2025	193.5	144,800	–
21 September 2015	Unapproved	2018–2025	193.5	47,400	–
				2,727,673	3,159,073

A number of share warrants around the IPO and subsequent share options for Non-Executive Directors are as follows:

Date of grant	Warrant type	Period when exercisable	Price in pence	2016 Number	2015 Number
8 July 2013	Unapproved pre–IPO warrants*	2013–2023	95	65,790	65,790
15 July 2013	Unapproved IPO warrants**	2013–2015	127	15,748	232,832
15 July 2013	Unapproved IPO warrants*	2013–2023	127	147,638	147,638
10 March 2015	Unapproved Options	2018–2025	193.5	25,000	–
				254,176	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.

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 2016		31 May 2015	
	Number	Weighted average exercise price in pence	Number	Weighted average exercise price in pence
Opening balance	**3,372,501**	**181.9**	2,440,426	100.0
Granted	**193,200**	**193.5**	1,512,450	216.6
Exercised	**(508,100)**	**70.9**	(496,375)	78.7
Forfeited	**(91,500)**	**226.3**	(84,000)	210.4
Closing balance	**2,966,101**	**157.0**	3,372,501	181.9
Exercisable at the year end	**1,159,951**	**95.3**	1,674,051	87.6

The weighted average share price at the date of exercise of the share options was 217.3 pence. The share based compensation charge in the profit and loss was £738,020 of which £10,287 was in respect of warrants.

The share options at the end of May 2016 including those for Non-Executive Directors but excluding those of third parties have a weighted average contractual life as follows:

		Group and Company year ended			
		31 May 2016		31 May 2015	
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
July 2022	89	**722,523**	**72**	789,223	84
May 2023	95	**224,000**	**84**	228,000	96
July 2023	95	**65,790**	**86**	65,790	98
July 2023	127	**147,638**	**86**	147,638	98
March 2024	224.5	**206,000**	**94**	228,000	106
September 2024	257.5	**1,199,150**	**100**	1,230,150	112
March 2025	230.0	**208,800**	**106**	240,300	118
September 2025	193.5	**192,200**	**111**	–	–
Total		**2,966,101**	**91**	3,372,501	90

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:

	September 2015	March 2015
Share price at date of grant (pence)	193.5	230
Exercise price	193.5	230
Expected time to expiry (years)	8.25	8.47
Risk-free interest rate (%)	2.9	4.3
Expected dividend yield on shares (%)	0	0
Expected volatility of share price (%)	34	38
Fair value of options granted (pence)	86.8	123.4

The assumptions of volatility for the September 2015 round 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 Estera Trust (Jersey Limited) (formerly 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 508,100 Ordinary Shares. The EBT purchased 195,899 Ordinary Shares from the market and 218,146 Ordinary Shares from employees exercising under the cashless options. The EBT had no other assets or liabilities at 31 May 2016 outside of its interest in 230,400 Ordinary Shares, and £1,353,770 (2015: £550,766) was the drawndown balance from the £10 million facility provided by the Company.

Accounting policy

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 those 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.

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 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Trade payables	702	1,014	701	974
Intercompany payable	–	–	39	26
Accruals	1,635	1,792	1,627	1,779
Financial liabilities	2,337	2,806	2,367	2,779
Derivative financial instruments	388	–	388	–
Other taxation and social security	348	301	348	301
Total trade and other payables	3,073	3,107	3,103	3,080

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.

21. CURRENT TAX LIABILITIES

Current tax liabilities in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Current tax liabilities	89	–	–	–

The Group current tax liability is £89,136. This is represented by a UK tax liability of £nil and the remainder attributed to Canada.

22. DEFERRED INCOME

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

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	**31 May 2016 £'000**	31 May 2015 £'000
Deferred income – Self-published activities	**2,233**	723	**1,762**	723

£1,085,612 of deferred income is to be recognised within one year with the remaining £1,147,767 due within the next five and a half 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, *Elite Dangerous: Horizons* revenue in respect of future promised content and *Planet Coaster* pre-orders.

The deferred lifetime expansion passes revenue will be released over the remaining franchise period after the first paid-for update has been released. *Elite Dangerous: Horizons* and *Planet Coaster* pre-orders revenue will be released when the product has been delivered to the customer. The carrying values of deferred income are considered to be a reasonable approximation of fair value.

23. PROVISIONS

Provisions for dilapidations

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Opening balance	**260**	223
Provided for in period	**13**	37
At period end	**273**	260

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.

Accounting policy

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.

24. FINANCE INCOME

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

	31 May 2016 £'000	31 May 2015 £'000
Interest income from cash and cash equivalents	**37**	53

25. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of the charge in the period

	31 May 2016 £'000	31 May 2015 £'000
UK corporation tax based on the results for the year		
Overseas tax on the results for the period	**94**	–
Video Games Tax Relief credits (UK)	**(207)**	–
Deferred tax	**(44)**	(28)
Tax on profit on ordinary activities	**(157)**	(28)

(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 19.6% (2015: 21.5%) as follows:

	31 May 2016 £'000	31 May 2015 £'000
Profit on ordinary activities before taxation	1,275	1,619
Tax on profit on ordinary activities at standard rate	250	347
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	297	236
Adjustments for opening deferred tax average rate	–	(2)
Research and development tax credits	(410)	(282)
Deferred tax	44	–
Exercise of share options	(159)	(163)
Losses to carry forward	(179)	(164)
Total amount of tax	**(157)**	(28)

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. Claims of £207,087 were received post period and recognised; a further claim of £664,761 has been made, but not yet received nor recognised.

Accounting policy

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.

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.

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 2016	31 May 2015
Profit attributable to Shareholders (£'000)	1,432	1,647
Weighted average number of shares	33,812,840	33,513,575
Basic earnings per share (pence)	4.2	4.9

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.

	31 May 2016	31 May 2015
Profit attributable to Shareholders (£'000)	1,432	1,647
Diluted weighted average number of shares	35,302,973	35,346,221
Diluted earnings per share (pence)	4.1	4.7

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 2016	31 May 2015
Ordinary Shares	33,812,840	33,513,575
Under option	1,490,133	1,832,647
Diluted average number of shares	35,302,973	35,346,221

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 2016	31 May 2015
Adjusted Operating (loss) / profit attributable to shareholders (£'000)	(2,691)	2,466
Weighted average number of shares	33,812,840	33,513,575
Adjusted basic (loss) / earnings per share (pence)	(8.0)	7.4
Weighted average number of shares (diluted)	35,302,973	35,346,222
Adjusted diluted earnings per share (pence)	(8.0)	7.0

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.

	Group and Company year ended			
	31 May 2016 £'000	31 May 2016 £'000	31 May 2015 £'000	31 May 2015 £'000
Connected party	Expense paid	Creditor balance	Expense paid	Creditor balance
Chris Sawyer – royalties	84	–	58	–
Marjacq Micro Limited – sales commission	19	–	33	–

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Connected party	Change in value of loan expense paid	Change in value of loan
Employee Benefit Trust – Share options exercised by employees	129	(63)
Employee Benefit Trust – Shares issued and market purchases	675	614
Movement in year	804	551
Opening loan balance	550	–
Closing loan balance	1,354	551

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, US and Canadian banks.

At the year end the Group's financial assets are secured by a debenture issued in favour of Barclays Bank plc.

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			Consolidated year ended			Company year ended		
	31 May 2016			31 May 2016			31 May 2015			31 May 2015		
	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	553	1,404	301	728	878	301	9	2,229	55	9	2,195	55

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 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	298	202	661	330
Equity	188	192	118	182

28. FINANCIAL INSTRUMENT RISKS CONTINUED

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 2016				
Trade and other payables	2,281	56	–	–
As at 31 May 2015				
Trade and other payables	2,748	58	–	–

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 2016				
Trade and other payables	2,311	56	–	–
As at 31 May 2015				
Trade and other payables	2,721	58	–	–

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 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Total equity	22,764	20,887	22,358	20,371
Borrowings (includes current element)	–	–	–	–
Less cash and cash equivalent	(8,610)	(10,478)	(7,531)	(10,203)
Total capital	14,154	10,409	14,827	10,168

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 registered offices of Frontier Developments plc at 306 Science Park, Milton Road, Cambridge CB4 0WG on 18 October 2016 at 9:15am (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 2016 together with the Reports of the Directors and Auditor thereon.

Resolution 2. To appoint Mr Charles Cotton as a Non-Executive Director in accordance with Article 67 of the Company's Articles of Association (the 'Articles').

Resolution 3. To re-appoint Dr. David Braben as a Director, who has retired by rotation in accordance with Article 70 of the Articles and is therefore required to stand for re-election pursuant to Article 70 of the Articles.

Resolution 4. To re-appoint Mr David Gammon as a Non-Executive Director, who has retired by rotation in accordance with Article 70 of the Articles and is therefore required to stand for re-election pursuant to Article 70 of the Articles.

Resolution 5. 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 6. To authorise the directors of the Company (the 'Directors') to determine the Auditor's remuneration for the ensuing year.

Resolution 7. That in substitution for all authorities in existence immediately prior to this resolution being passed, the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company, pursuant to Section 551 of the Act, to allot equity securities (within the meaning of Section 560 of the Act) up to an aggregate nominal amount of £56,854.22, 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 a 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 2017 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 8. THAT subject to the passing of resolution 7 above, the Directors be empowered in accordance with Section 570 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 7 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 £17,056.26 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 2017 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 2016

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

EXPLANATORY NOTES

To the Notice of Annual General Meeting

Notes

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. The proxy need not be a member of the Company but must attend the meeting to represent you.

2. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, you will need to complete a separate Form of Proxy in relation to each appointment. To request additional Forms of Proxy, please contact the Company Secretary on 01223 394300 or at Frontier Developments plc, 306 Science Park, Milton Road, Cambridge, CB4 0WG. You will need to state clearly on each Form of Proxy the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares a proxy appointment relates to or specifying a number of shares in excess of those held by the member will result in the proxy appointment being invalid.

3. If you wish your proxy to speak on your behalf at the meeting, you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them. If you wish to appoint a proxy other than the Chairman, write the full name of your proxy in the box provided in the Form of Proxy.

4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. In the absence of instructions, the person appointed proxy may vote or abstain from voting as he / she thinks fit on the specified resolutions and, unless otherwise instructed, may also vote or abstain from voting on any other matter (including amendments to resolutions) which may properly come before the meeting.

5. In the case of joint holders, the signature of any one of them will suffice but the names of all joint holders should be stated. The vote of the senior who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the votes of the other holders. For this purpose, seniority is determined by the order in which the names stand in the register of members in respect of the joint holding.

6. To be effective, the 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 9.15am on 14 October 2016 (being not more than 48 hours (excluding non-working days) prior to the time fixed for the meeting).

7. Whether or not you propose to attend the Annual General Meeting, please complete, sign and submit a Form of Proxy to our registrars Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by no later than the time and date specified above.

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

9. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members entered on the register of members of the Company by close of business UK time on 14 October 2016 (being not more than 48 hours (excluding non-working days) prior to the time fixed for the meeting) shall be entitled to attend and vote at the meeting or, if the meeting is adjourned, by close of business UK time on such date being not more than 48 hours (excluding non-working days) prior to the date fixed for the adjourned meeting. Changes to entries on the register of members after such time shall be disregarded in determining the right of any person to attend or vote at the meeting.

10. The following documents will be available for inspection from the date of this notice until the meeting at the Company's registered office and at the meeting convened by this notice:

    (a) register of Directors' share interests; and
    (b) Directors' service contracts and letters of appointment (as applicable).

11. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member.

ADVISORS AND COMPANY INFORMATION

COMPANY SECRETARY AND CFO
Mr N R Armstrong

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Cambridge CB4 0WG

Website
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LEGAL ADVISORS TO THE COMPANY
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The Registry
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