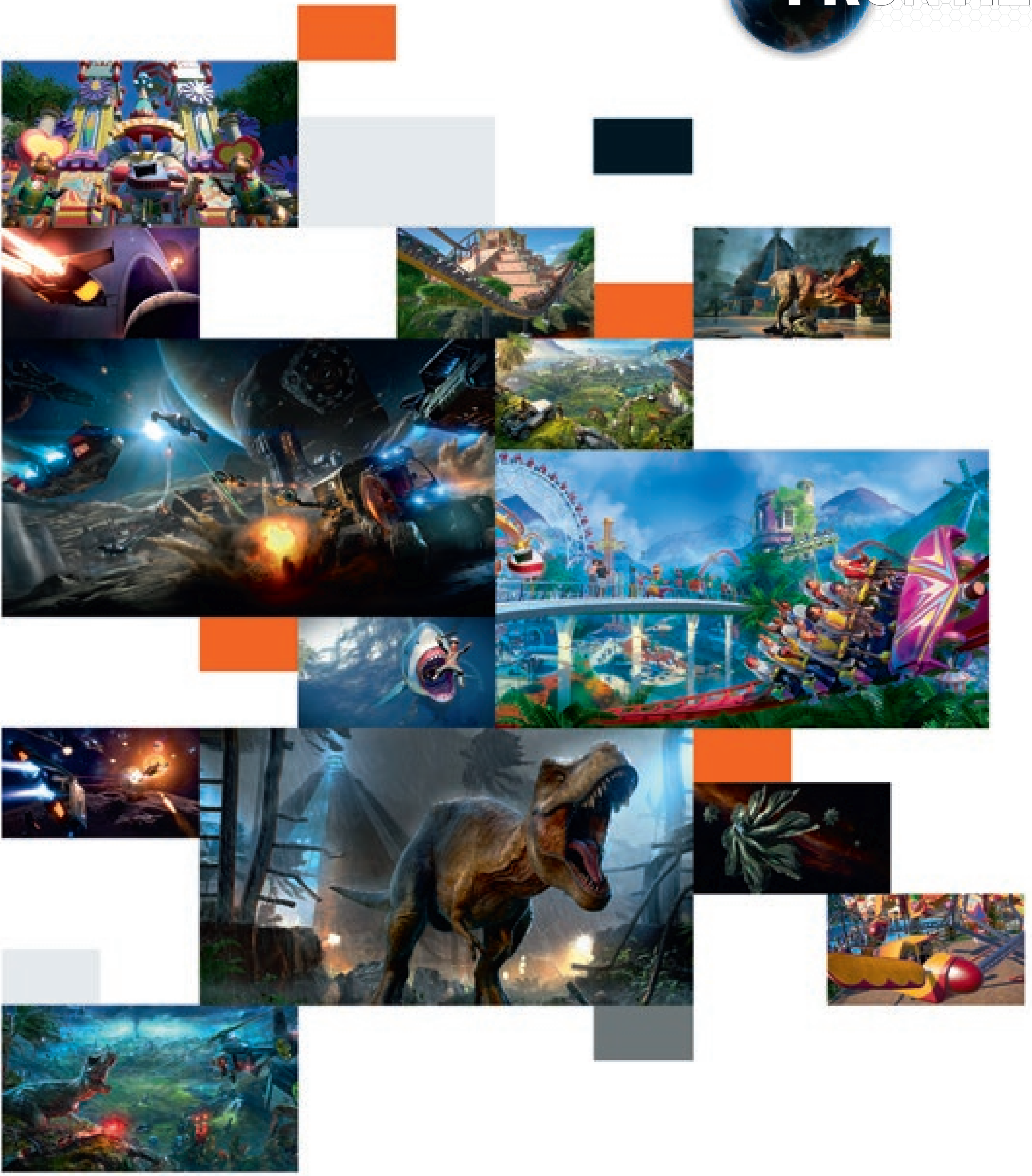


GROWING
OUR PORTFOLIO

FRONTIER DEVELOPMENTS PLC
ANNUAL REPORT AND ACCOUNTS 2018

A MULTI-FRANCHISE **SUCCESS STORY**

Frontier Developments plc ('Frontier'), listed on the AIM stock market (AIM: FDEV), is a world-class video game developer and publisher with multiple revenue generating franchises.

Founded in 1994 by David Braben, co-author of the seminal Elite game and based in Cambridge, Frontier uses its proprietary 'COBRA' game development technology to create innovative games, currently focusing on video game consoles and personal computers.

Having successfully completed a transition to a self-publishing model with its first two franchises, Frontier is scaling up to expand its franchise portfolio in order to deliver long-term revenue and earnings growth.

In the financial year ended 31 May 2018, the ongoing success of Frontier's first two franchises, *Elite Dangerous* (launched December 2014) and *Planet Coaster* (launched November 2016) supported the investment in *Jurassic World Evolution*, which launched successfully in June 2018 (after the end of the financial year) and will deliver the next step up in financial performance for the Company.

We have a proven track record of sustaining and nurturing existing franchises to deliver multi-year revenues, with each new franchise release providing a step-up in overall Company financial performance, and we have proven our ability to successfully launch franchises for a third time with *Jurassic World Evolution*. Our ambition is to create a multi-franchise success story, and we remain excited about the prospects for our industry and for our Company.

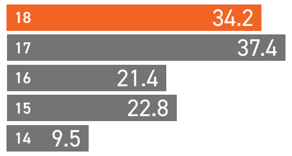
Read this report online:
AR.FRONTIER.CO.UK

WE CONTINUE **TO SCALE UP**

Financial KPIs

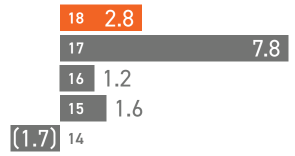
Total revenue (£m)

£34.2m



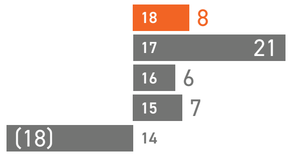
Operating profit (£m)

£2.8m



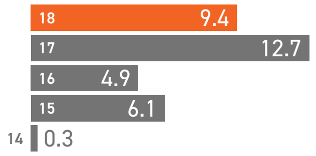
Operating margin (%)

8%



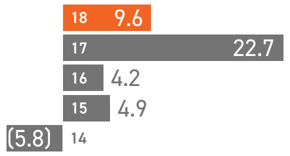
EBITDA* (£m)

£9.4m



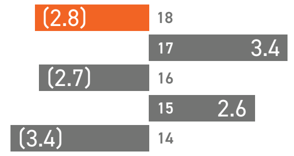
EPS (basic) (p)

9.6p



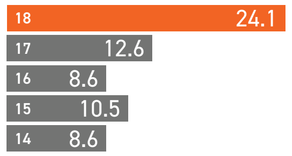
Operating cash flow** (£m)

£(2.8)m



Net cash balance (£m)

£24.1m



* Earnings before interest, tax, depreciation and amortisation

** Operating profit excluding non-cash items, less investments in franchises and other intangible assets

Operational highlights

- Frontier's strategy of sustaining and nurturing its franchises continues to deliver, as both *Elite Dangerous* and *Planet Coaster* continue to thrive.
- *Elite Dangerous*, which launched in December 2014, delivered its fourth year of sustained substantial revenue generation in FY18. In June 2017 the franchise's addressable audience was further expanded with its release on the Sony PlayStation 4 platform, and we launched the *Beyond* season of free updates to continue to appeal to new and existing players by providing additional gameplay features and further narrative.
- *Planet Coaster*, which launched in November 2016, continues its genre-leading popularity. During the year we started to release chargeable themed expansion packs, each of which adds substantial features and content for players and generates additional sales for the franchise beyond the initial game purchase.
- Towards the end of FY18 we completed the development of our third franchise, *Jurassic World Evolution*, as planned and, in June 2018 (after the end of FY18), achieved a third successful franchise launch with its release alongside the launch of the *Jurassic World: Fallen Kingdom* film.
- £17.7 million was raised in July 2017 through a strategic investment from Tencent, a leading internet and interactive entertainment company based in China, to improve and accelerate Frontier's growth into the key Chinese market and help drive scale-up of the business.
- In October 2017 the first Frontier Expo was held, a Frontier-specific event which brought together Frontier's developers, player community members and media to spotlight major franchise announcements, maximising awareness and further building Frontier's profile.

Financial highlights

- Total revenue of £34.2 million in FY18 reflected sustained sales performances for both *Elite Dangerous* and *Planet Coaster* following the step-up in sales in the prior period from the launch of *Planet Coaster* in November 2016 (FY17 revenue grew 75% over FY16).
- As anticipated, a combination of slightly lower annual sales resulting from no new franchise launch in FY18 and our planned increased investment in development and marketing saw operating profit reduce to £2.8 million (FY17: £7.8 million) and EBITDA reduce to £9.4 million (FY17: £12.7 million).
- Operating cash flow (operating profit excluding non-cash items, less investments in franchises and other intangible assets) was an outflow of £2.8 million (FY17: inflow of £3.4 million), reflecting the investment in *Jurassic World Evolution*.
- Cash balances increased by £11.5 million during the year to £24.1 million (FY17: £12.6 million) following the £17.7 million strategic investment by Tencent in July 2017.

WE HAVE PROVEN OUR ABILITY **TO LAUNCH SUCCESSFUL FRANCHISES**

Elite Dangerous

Available for Windows PC, Microsoft Xbox One and Sony PlayStation 4 – is the definitive massively multiplayer space epic, bringing gaming's original open world adventure to the modern generation with a connected galaxy, evolving narrative and the entirety of the Milky Way recreated at its full galactic proportions.

Read more from page 8

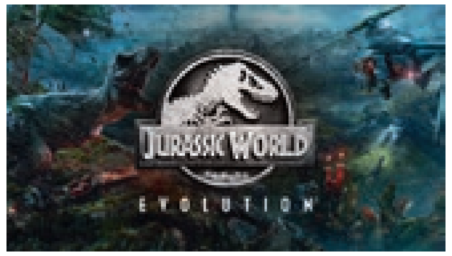
ELITEDANGEROUS.COM

Planet Coaster

Available for Windows PC – builds on Frontier's genre-defining expertise with coaster park games such as *RollerCoaster Tycoon 3* and *Thrillville*. It further raises the bar for this popular genre, allowing players to let their imaginations run wild as they surprise, delight and thrill incredible crowds, and share their success with the world via the Steam Workshop community.

Read more from page 10

PLANETCOASTER.COM



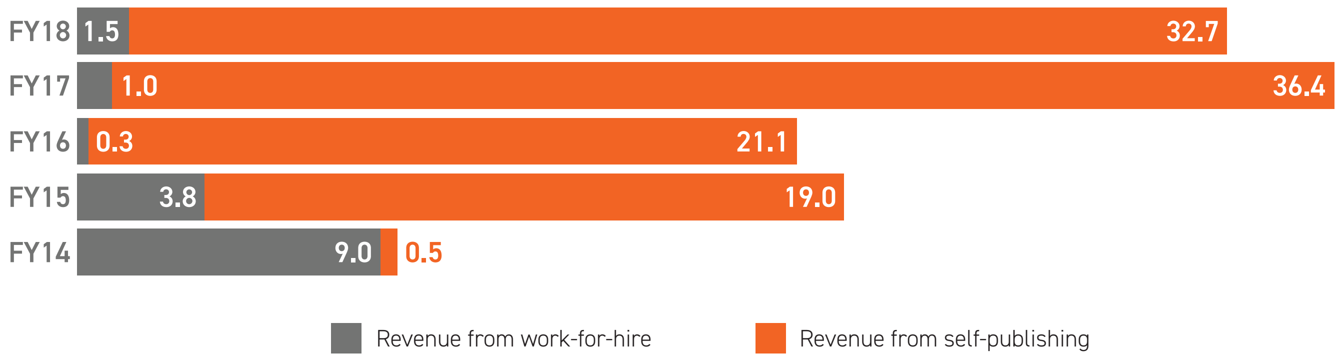
Jurassic World Evolution

Available for Windows PC, Microsoft Xbox One and Sony PlayStation 4 – evolves players' relationships with the *Jurassic World* film franchise, placing them in control of operations on the legendary island of Isla Nublar and the surrounding islands of the Muertes Archipelago. Players will create and manage their own *Jurassic World* as they bioengineer new dinosaur breeds, and construct attractions, containment and research facilities. Every choice leads to a different path and spectacular challenges arise when 'life finds a way'.

Read more from page 12

JURASSICWORLDEVOLUTION.COM

Revenue history (£m)



CHAIRMAN'S STATEMENT
DAVID GAMMON, NON-EXECUTIVE CHAIRMAN

DELIVERING FOR **OUR STAKEHOLDERS**

"We are well positioned for the future."

I am pleased to report on another healthy year for Frontier. Our first two franchises continued to perform well, and our team did a terrific job on the development and successful launch of *Jurassic World Evolution* in June 2018. Our chosen business model of multi-franchise self-publishing is delivering well for our Company and all of its stakeholders, including our community of players, our employees and our investors.

Our long-term ambition to become a global leader in entertainment remains on plan. We are scaling up to continue our multi-franchise success story through the development and growth of our internal capabilities together with an expanding use of external resources. Our proven ability to both launch and sustain franchises within a self-publishing model, as well as our long history of delivery and capability, positions us very well to continue our organisational development. It is pleasing to see both *Elite Dangerous* and *Planet Coaster* selling strongly in their fourth and second financial years respectively. This validates our model of establishing franchises with enduring appeal rather than for the short term. Franchises four, five and six are all at different stages of development, from full scale production to conceptual design stage. In addition we have exciting plans for our three existing franchises.

We benefit from a highly experienced team at Board level. In September 2017 our Board was further strengthened through the appointment of James Mitchell as a Non-Executive Director. We invited James, who is Chief Strategy Officer at Tencent, to join the Board in order to gain his insights into the Chinese market and the wider global entertainment industry, following the £17.7 million strategic investment made by Tencent in July 2017. James has already proven to be an invaluable member of the Board and we are delighted with his appointment.

At the AGM in October 2018 our Chief Operating Officer, David Walsh, will transition to a Non-Executive Director role in order to focus his attention on a start-up opportunity outside of the games industry. I would like to thank David for his 17 years of excellent service to Frontier, and I am delighted that he will continue to contribute in a Non-Executive role. David's responsibilities are being allocated between James Dixon, Director of Operations, Stewart Stanbury, Director of Marketing and Alex Bevis, CFO. James Dixon has been with the Company for over 20 years and has a wealth of experience of both the game development and operational aspects of the company. Stewart Stanbury joined Frontier in September 2017 from Google, where he specialised in digital marketing, brand and strategy for top games industry clients including Activision, EA, Ubisoft and Wargaming as Games Industry Manager for the Media & Entertainment Sector.

We have already achieved a lot since we started our transition to a self-publishing multi-franchise model, but there is much more to come. We are well positioned for the future as a result of the dedication, engagement, skill and professionalism of our amazing team, and I would like to take this opportunity, on behalf of the Board, to thank them for their tremendous efforts.

DAVID GAMMON
NON-EXECUTIVE CHAIRMAN
5 September 2018

GROWING OUR **PORTFOLIO**

"I would like to thank everyone at Frontier and all our players around the world."

In January 2019 Frontier will celebrate its 25th anniversary since I founded the company in January 1994. Both the industry and our Company have undergone significant change throughout that time, and I am personally very proud of all of our achievements. I am particularly pleased with the success of our transition to self-publishing over the last five years. The rise of digital distribution was the catalyst for our change, and our extensive experience in the games industry gave us the confidence to make the switch. I believe our decision has been proved correct by the ongoing performance of our first two franchises, *Elite Dangerous* and *Planet Coaster*, and the successful launch of *Jurassic World Evolution*. I would like to thank everyone at Frontier for their continued contribution and hard work and thank our players around the world who continue to make all this possible.

THE GAMES MARKET

We operate in an exciting and growing industry that continues to see rapid change. The games market is already the premier form of entertainment worldwide, worth over $100 billion per year within the wider $300 billion entertainment industry. That is larger than each of the film, TV or music industries. The games sector is growing fast too, increasing at around 10% last year, whilst some other entertainment sectors, such as TV, have experienced declines. The lines between entertainment sectors continue to blur, as audiences crave greater levels of interactivity within their entertainment experiences; more than just shouting at their TVs! These are exciting times and Frontier is well placed to both drive and support future changes in the wider entertainment industry, including the potential addition of whole new forms of entertainment.

The games market is typically seen as three different sectors: PC, console and mobile/tablet. The characteristics of each sector are quite different. Our development focus is currently on PC and console titles, as the audiences on these platforms highly value games exhibiting Frontier's key development strengths such as compelling gameplay and high production quality. In contrast the mobile sector is overcrowded, with a very low barrier to entry, so success is both much less predictable and much less influenced by quality. 'Discoverability' (the ability to find a title) is also better on PC and console, with excellent support from reviewers, 'youtubers' and social media.

The whole market is moving rapidly towards digital download as the primary delivery model. Mobile and PC are now almost 100% digital, and the console audience is quickly adopting digital downloads too, as market focus moves to the new generation of hardware and older business models are replaced.

There are already some very large and well-established companies in the games market, with a number of companies supporting $1 billion+ valuations. Two of the largest publishers and developers, EA and Activision Blizzard, both based in the US, have a combined value of around $100 billion. However, our industry has always thrived on disruption, in terms of individual games, game genres, charging models, technology and routes to market, and it has been interesting to observe the impact of some of those disrupting factors in the last 12 months. Our chosen model – supporting our games and their communities with regular updates, essentially 'games as a service' – is working very well, producing three out of three successful franchises so far, but we will continue to monitor and consider different options as the industry continues to evolve.

STRATEGY

We believe that publishing our own franchises is the best way to maximise the benefit of our core skills, our assets and our COBRA technology platform. The Company's focus is on developing top-quality self-published PC and console titles for digital distribution. Generally the audiences on these platforms value the types of high-quality games that Frontier is able to deliver.

We will also continue to follow our repeatable model, to create further franchises in popular game genres where we can use our key expertise and knowledge and/or IP to deliver highly differentiated, best-in-class player experiences, and further build our revenue pipeline over the long term.

Our strategic objective is to create long-term sustainable growth through success by publishing a growing number of franchises. Our strategic focus is on two key areas:

- developing our business to achieve repeatable success; and
- creating and managing franchises.

Frontier is scaling up to build a broad portfolio of franchises, each different to the last, and each with the capability to offer sustained revenue streams as already seen with *Elite Dangerous* and *Planet Coaster*. Releases of new franchises can be expected to drive steps up in the Group's financial performance. Because of the small number of franchises and relatively infrequent major releases Frontier is currently able to make, revenue is sensitive to the specific schedule of such releases and may therefore exhibit 'stepped' behaviour across financial years, as those new franchises are released. In the future, as we successfully scale the number and frequency of franchise releases, annual revenue growth should accelerate and our dependency on each major release should decrease.

We aim to accelerate our output to achieve one major launch every 12 months or so, but this will not require us to increase our workforce linearly because supporting existing franchises typically requires less resource than creating new ones.

Overall we will continue to focus on opportunities which leverage our existing expertise, intellectual property, publishing presence, relationships and financial position. As stated in the Group's previous Annual Reports and other communications, in addition to the current core model of using internal resources supplemented by outsourced services, the Group will continue to explore other opportunities to accelerate its scale-up.

External partnerships are an important element within our plans and such opportunities are likely to include third party publishing (controlling the promotion and distribution of other developers' games), commissioning (outsourcing the majority of development of Frontier games to other developers), and enhancing the Group's franchise portfolio or capabilities via acquisitions.

I look forward to working with Frontier's fantastic team and our partners to build on our early self-publishing success and establish a new long-term, self-published track record of quality, innovation and delivery as we scale-up to continue our multi-franchise success story.

Current trading and outlook

The launch of *Jurassic World Evolution*, in June 2018 has led a record trading performance during the period from the year end (31 May 2018). Digital sales of *Jurassic World Evolution* have been substantial across all three platforms, (PC, PlayStation 4 and Xbox One) and physical disc sales on PlayStation 4 and Xbox One have also been significant. On 19 July 2018 Frontier announced that cumulative sales on all formats had passed 1 million units, just 5 weeks after the digital launch on 12 June 2018.

We are pleased with the positive early sales and player feedback for *Jurassic World Evolution*. This initial success further demonstrates our ability to add new franchises to our portfolio and emphasises our capability to both develop and publish top tier IP, reinforcing our appeal as a partner to IP holders. The timing of our launch to coincide with the film release of *Jurassic World: Fallen Kingdom* confirms our ability to ship a new game on a hard deadline simultaneously across three high-end gaming platforms (PC, PlayStation 4 and Xbox One).

Our first two franchises, *Elite Dangerous* and *Planet Coaster*, both supported by our strategy of ongoing development, continue to perform well, delivering a sustained revenue contribution during the period from 31 May 2018.

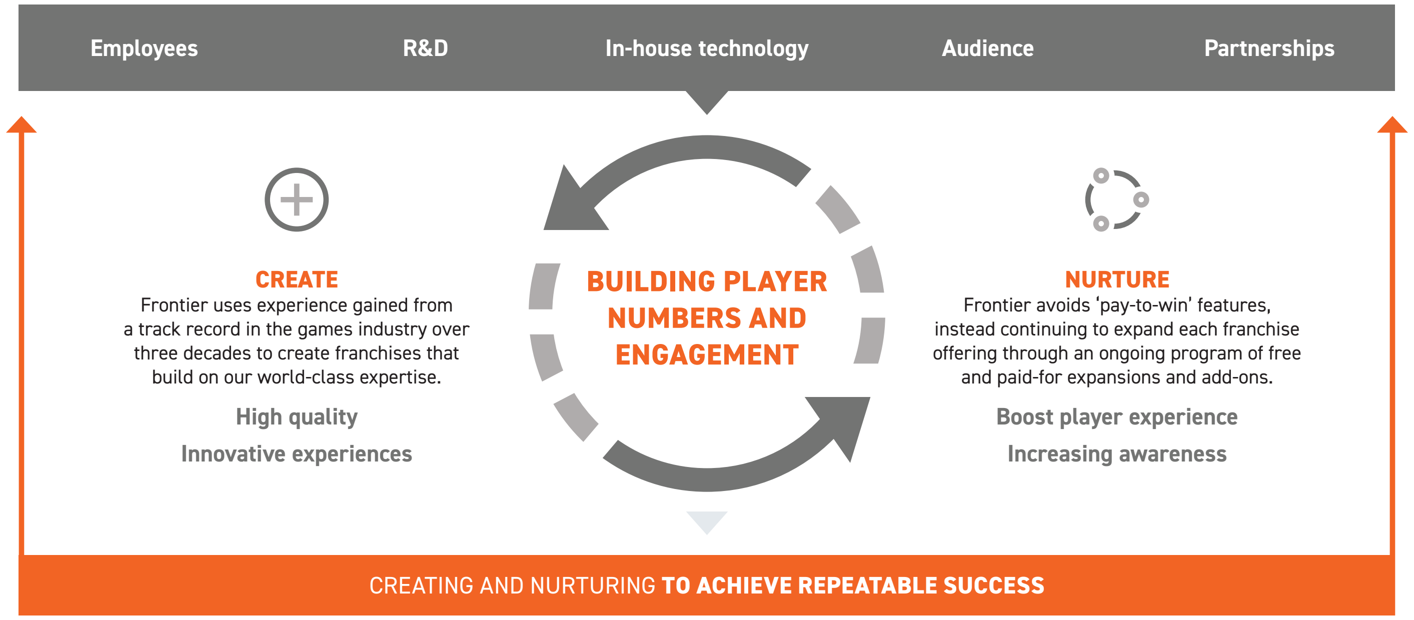
Although it is still early in terms of both Frontier's financial year and the life-cycle of *Jurassic World Evolution*, the Board is comfortable with the current range of analyst revenue projections of £75 million to £88 million for FY19 (the year ending 31 May 2019), a substantial increase over the £34 million achieved in FY18.

David Braben, Chief Executive, said:

"*Jurassic World Evolution* has achieved our biggest launch to date, and we are now very well positioned with three successful revenue generating franchises. We will continue to support and enhance all three of our existing franchises (*Elite Dangerous*, *Planet Coaster* and *Jurassic World Evolution*), and we'll be making a number of exciting announcements about each franchise in due course. Franchise four, which is based on our own un-announced IP, is now in full development and targeted for release in FY20, and two more new franchises are in earlier stages of development."

OUR MULTI-FRANCHISE **MODEL**

What we do



Creating and managing franchises

OVERVIEW

In order to maximise the return on our core skills and assets we target game genres on PC and Console platforms where we believe we can both i) deliver high-quality, differentiated offerings using established expertise and intellectual property, and ii) have a strong chance of successful market entry, based on past experience or knowledge of that sector.

We use this repeatable model to invest our resources with the intention of creating world-class games with strong franchise potential and plan for strong post-launch franchise support to further help realise this potential.

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 as well as 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, marketing, distribution channels and charging models through investing in the necessary people, organisation, resources and infrastructure.

OUR SCALE-UP MODEL

Developing our business to achieve repeatable success

INVEST

We invest our development resources in games with strong franchise potential. In order to maximise the return on our core skills and assets we target game genres where we have established expertise and/or intellectual property.

We continue to invest in our organisation to create a model of repeatable success. To accelerate our progress and increase the frequency of launches we are scaling up our organisation, not just in terms of staff numbers, but also in terms of leadership skills, training, organisational structure, process and external partnerships.

We also invest in the necessary facilities to support our world-class team. In April 2018 we moved all of our staff into a brand new office space on the Cambridge Science Park. It is our belief that having all our people in Cambridge working together in a single building helps to maximise our operational effectiveness and efficiency.

DEVELOP

Our development focus is on PC and console. Audiences on these platforms tend to value games that exhibit Frontier's key development strengths.

We use online channels to create and engage with a player community during game development, which provides a valuable source of both feedback and advocacy for each franchise before first release.

Our development process uses our proprietary COBRA development tools and technology to facilitate innovative features and the creation of top-quality self-published games with strong differentiation for the PC and console audiences. Our control of this technology also removes the risk related to ongoing access to third party licensed technology alternatives, the risk relating to the ability to fix uncovered problems in that technology and the risk related to the lack of control over the delivery dates and new feature roadmap of such solutions. It also facilitates rapid response to market opportunities, for example as happened with support for Virtual Reality and Augmented Reality.

PUBLISH

We continue to assess the distribution channels and platforms we use to achieve an optimal addressable audience for each game, and the monetisation strategy for each franchise. We participate in price promotions on each of the distribution platforms we use for each of our games as appropriate to its life-cycle stage, allowing us to reach the widest possible audience over time.

We also monitor the geographical performance of our franchises, understanding and monitoring under and over performance versus expectations in each territory, and will continue to look for opportunities to tailor our local price to a level more appropriate to each local economy. In particular we note the rapidly growing Chinese market for premium PC games, and we expect our strong relationship with Tencent to help us to take advantage of its unparalleled expertise and distribution capabilities in its home market for our franchises.

Future franchises

We are building a broad portfolio of franchises, each different to the last and each with the capabilities to expand over time. All future franchises will be selected using the same approach described above that was used for *Elite Dangerous*, *Planet Coaster* and *Jurassic World Evolution*. We are scaling up for the future so we can release games more frequently, and we already have future franchises in different phases of development.

Subject to Frontier's disclosure obligations as an AIM company, it is the Board's intention to make announcements about future franchises at the optimum time for the success of that particular franchise. This may be some time after the start of a particular project, and not necessarily at the time of the signature of an agreement with a development or IP partner.

Our future franchise portfolio is likely to contain a mixture of owned IP (like *Elite Dangerous* and *Planet Coaster*) and licensed IP (like *Jurassic World Evolution*). We are pleased with the initial sales and feedback for *Jurassic World Evolution*, which illustrates that we can develop and publish world-leading IP alongside a major film launch; we will review the value of licensing proven third party IP versus developing our own IP for each potential future franchise on a case-by-case basis.

Franchise four, which is based on our own un-announced IP, is now in full development and targeted for release in FY20, and two more new franchises are in earlier stages of development.

BLAZING A TRAIL **INTO THE BEYOND**

Elite Dangerous is now in its fifth financial year since release in December 2014. Since launch we have continued to release expansions to the original *Elite Dangerous* game, simultaneously on PC, Xbox One and PlayStation 4 as those platforms have been added.

Simultaneous releases on all supported platforms are planned to continue going forward, including Sony's PlayStation 4 following the franchise's debut on the platform in June 2017 which significantly expanded its addressable audience.

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 attach rate of *Elite Dangerous: Horizons* to the base game continues to grow steadily, helped by the regular updates.

Having the base game and *Horizons* expansions in the market covers mid-price entry to the franchise with an upgrade path, and we bundle the two together and add some digital items to create a Deluxe edition for a premium price point entry. We believe each product in the franchise offers great value.

The third *Elite Dangerous* season, *Beyond*, was announced in October 2017 at Frontier Expo 17. *Chapter 1* launched in February 2018, *Chapter 2* launched in June 2018 and *Chapter 3* launched in August 2018.

Each *Beyond* update is free for all players, regardless of whether they have the *Horizons* season pass. *Beyond* focuses on enhancements to the overall player experience, bringing foundational changes to the core systems of *Elite Dangerous* and delivering new in-game content for Commanders to experience as they explore the massively multiplayer galaxy.

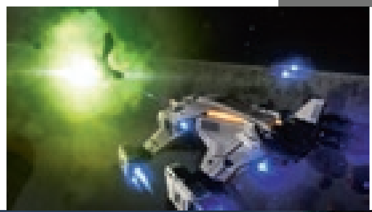
The *Elite Dangerous* franchise continues to perform strongly and we continue to focus on enhancements within the strategy of further improving perceived quality and sentiment, adding significant long-term new features and supporting the unique evolving player-driven story, which all players experience together. We expect to further expand the player base over the next financial year, adding new content and increasing the audience.

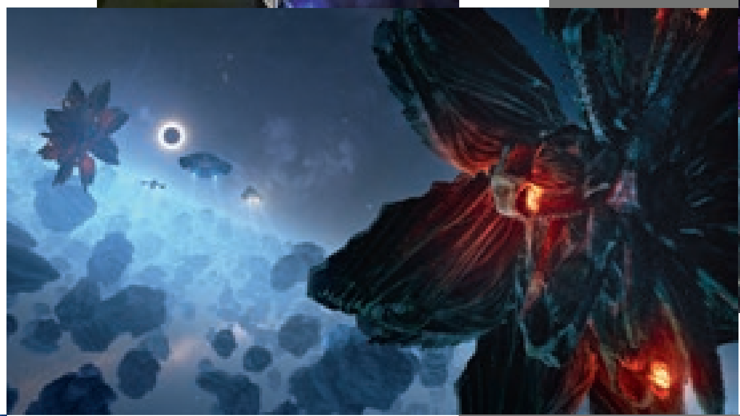
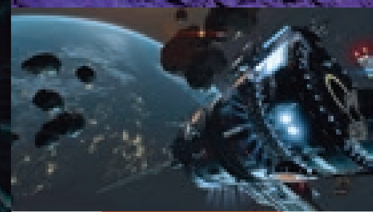
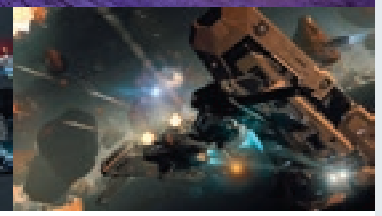
We continue to invest significant effort into *Elite Dangerous* which we expect to yield some exciting future developments – more to come!

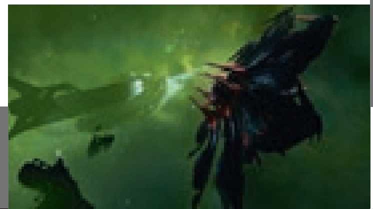
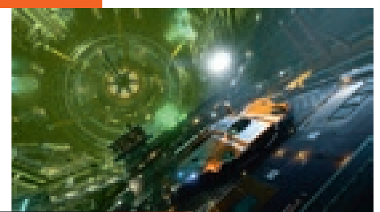
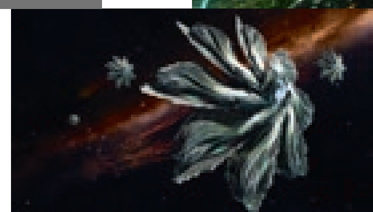
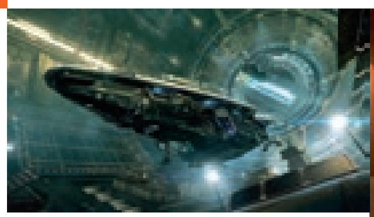
ELITEDANGEROUS.COM







Ongoing development

THE HORIZONS SEASON OF EXPANSIONS
Each expansion offers new headline gameplay features plus a large number of quality of life enhancements and other tweaks, fixes and improvements, and there is an accompanying update to the base game.

2.0
DECEMBER 2015
Planetary Landings was launched in December 2015 and expanded gameplay to planetary surfaces for the first time.

2.1
MAY – JUNE 2016
The Engineers was launched on PC in May 2016 and Xbox One in June 2016 and added loot and crafting mechanics to the game to allow players to upgrade the performance of their ship and weapons.

2.2
OCTOBER 2016
The Guardians was launched in October 2016 and expanded the gameplay possibilities of each ship by adding ship-launched fighters.

2.3
APRIL 2017
The Commanders was launched in April 2017 and offered the ability for multiple players to crew a ship and represented player characters in game with sophisticated customisation options.

2.4
SEPTEMBER 2017
The Return was released in September 2017 and supported the ongoing story arc related to Thargoids, the franchise's first alien species, and their interactions with humans in the *Elite Dangerous* galaxy.

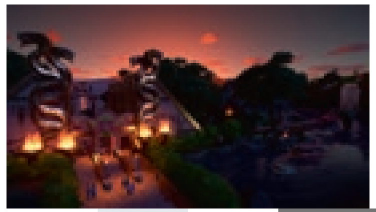
The release of 2.4 *The Return* completed the *Horizons* season of expansions.

BEYOND UPDATES
Each *Beyond* update is free for all players. *Beyond* focuses on enhancements to the overall player experience, bringing foundational changes to the core systems of *Elite Dangerous* and delivering new in-game content for Commanders to experience as they explore the massively multiplayer galaxy.

BEYOND CHAPTER 1
FEBRUARY 2018

BEYOND CHAPTER 2
JUNE 2018

BEYOND CHAPTER 3
AUGUST 2018



EVOLVING COASTER **PARK SIMULATION**

Planet Coaster was successfully launched in November 2016 after a short Beta period, achieving the global #1 position on the Steam distribution channel and continuing to sell strongly through the subsequent holiday period. In accordance with our strategy, we began to release free updates, each of which adds headline features but also expands and improves different creative and management aspects of the game.

The *Winter Update* was released in December 2016 with something for all players. In addition to new rides being added, there were further improvements to streamline management operations within parks, new scenarios, new shops, new transport rides and a new snowy winter theme.

The *Spring Update* was released in April 2017 and added security guard staff members and go-kart track rides for players to use in their parks, along with more rides, coasters, scenarios and further management improvements, as well as doubling the maximum size of blueprints that can be shared via the Steam workshop to 4,000 pieces.

The *Summer Update* was released in June 2017 and added customisable firework displays and video billboards for players to place in their parks, as well as more rides, coasters, scenarios and further management improvements, plus a new Stars and Stripes scenery set.

In November 2017 the *Planet Coaster Anniversary Update* was released, in celebration of one year since the game's launch. It was the fourth major free update and provided new rides, features and gameplay.

This update strategy is intended to further improve perceived quality and sentiment by adding significant long-term new features. Such updates add to the quality of the game, renew the interest of existing players and also generate additional coverage, resulting in new sales.

In July 2017 we released our first three paid downloadable content (PDLC) packs – all three involving Universal IP – *Back to the Future, The Munsters*, and *Knight Rider*. As with *Elite Dangerous*, this uses a model that provides an accompanying free feature update to the base game for all players.

In September 2017 we launched the *Planet Coaster Spooky Pack* – the first paid-for expansion pack – introducing new rides, a new entertainer, an all-new theme and bold new creative options. The pack enables players to mix and match hundreds of new scenery pieces, two new rides and new building components with *Planet Coaster*'s other unique themed building components.

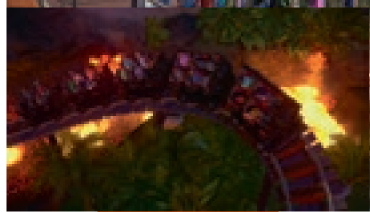
In December 2017 we released the *Planet Coaster Adventure Pack* with new rides, new scenery and a new entertainer for players to discover on an all-new creative journey.

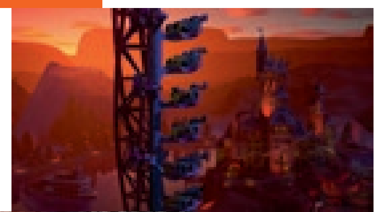
In March 2018 the *Planet Coaster Studios Pack* was launched, bringing the blockbuster experience to life with spectacular stunts, earth-shaking explosions, hotels and rides that put park guests at the heart of the action.

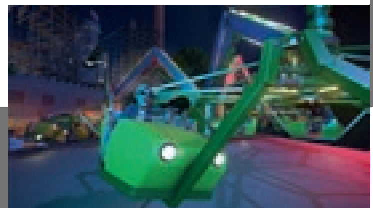
In July 2018 the *Planet Coaster Vintage Pack* was launched, offering nostalgic classic coasters and rides plus authentic period scenery that is filled to the brim with Victorian touches and timeless charm.

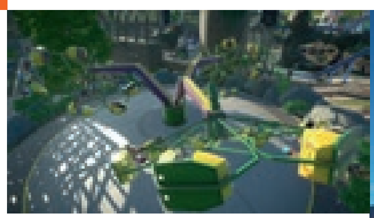
We will continue to support *Planet Coaster* going forwards; it has a long future ahead of it!

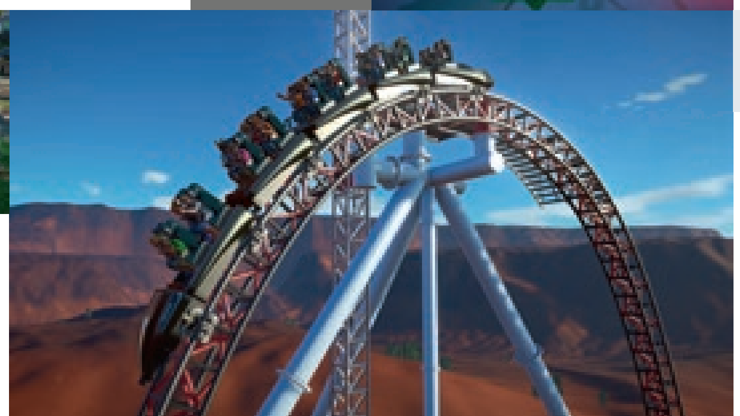
PLANETCOASTER.COM











Ongoing development

WINTER UPDATE
DECEMBER 2016

SPRING UPDATE
APRIL 2017

SUMMER UPDATE
JUNE 2017

FIRST PDLC PACKS
JULY 2017
Involving iconic Universal IP – *Back to the Future, The Munsters*, and *Knight Rider*.

SPOOKY PACK
SEPTEMBER 2017
The first paid-for expansion pack - introducing new rides, a new entertainer, an all-new theme and bold new creative options. The pack enables players to mix and match hundreds of new scenery pieces, two new rides and new building components with *Planet Coaster's* other unique themed building components.

ANNIVERSARY UPDATE
NOVEMBER 2017
Added the Scenario Editor, giving players tools to create their own custom scenarios and share them on the Steam Workshop with friends.

ADVENTURE PACK
DECEMBER 2017
Discover more on your jungle-themed adventure with thrilling rides, exciting scenery to create your own pyramids & temples, and lure your guests into ancient traps and have them encounter some truly scary creatures!

STUDIOS PACK
MARCH 2018
Bring glitzy Hollywood glamour to your park, build the ultimate backlot tour and bring the blockbuster experience to life with spectacular stunts, dramatic effects and rides that put park guests in the heart of the action.

VINTAGE PACK
JULY 2018
Build nostalgic buildings and fairground-style areas using new vintage looking scenery. Have your guests try out the classic rides and traditional attractions reminiscent of old school town fairs.

JURASSIC WORLD
EVOLUTION

BUILD YOUR OWN **JURASSIC WORLD**

Jurassic World Evolution, launched on 12 June 2018. It was our first self-published title (although not our first game) to debut on PC, PlayStation and Xbox simultaneously, and the first to benefit from such a major marketing event as the simultaneous launch of the latest film in the franchise, *Jurassic World: Fallen Kingdom* at the start of the biggest games industry show of the year – the E3 show in Los Angeles.

The opportunity was identified using the same approach described above for *Elite Dangerous* and *Planet Coaster*. *Jurassic World Evolution* leverages our management and builder game expertise, plus our unrivalled expertise in implementing believable in-game animals from games such as *Dog's Life*, *Kinectimals* and *Zoo Tycoon*. In this case we determined that being able to use the *Jurassic World* IP would significantly benefit awareness with the most recent movie in the franchise released in June 2018, around the 25th anniversary of the original movie. In fact, our digital launch on 12 June coincided with the US film premiere in Los Angeles.

Jurassic World Evolution evolves players' relationship with the *Jurassic World* film franchise, placing them in control of operations on the legendary island of Isla Nublar and the surrounding islands of the Muertes Archipelago. Players create and manage their own *Jurassic World* as they bioengineer new dinosaur breeds and construct attractions, containment and research facilities. Every choice leads to a different path and spectacular challenges arise when 'life finds a way.'

Jurassic World Evolution was announced in August 2017, with pre-order announced on 28 March 2018 for a digital launch on 12 June 2018 on all three platforms. In addition, physical discs went on sale for Xbox One and PlayStation 4 on 3 July 2018 for those who still prefer physical media.

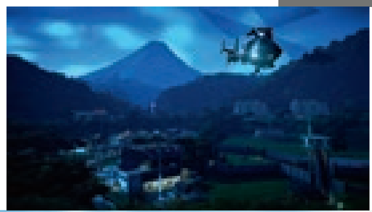
Initial player reaction and engagement with *Jurassic World Evolution* has been very positive. On 19 July 2018 Frontier announced that cumulative sales on all formats had passed 1 million units, just 5 weeks after the digital launch on 12 June 2018.

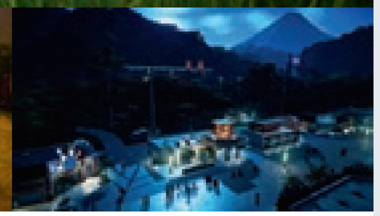
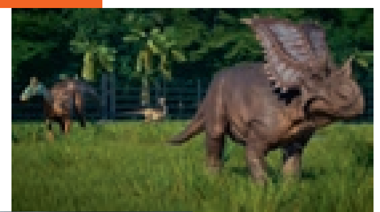
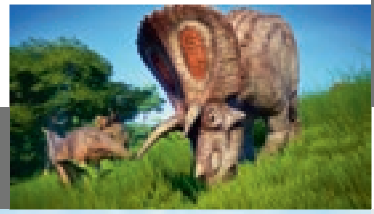
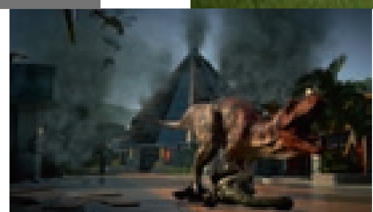
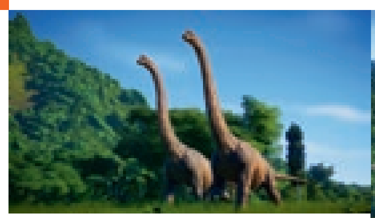
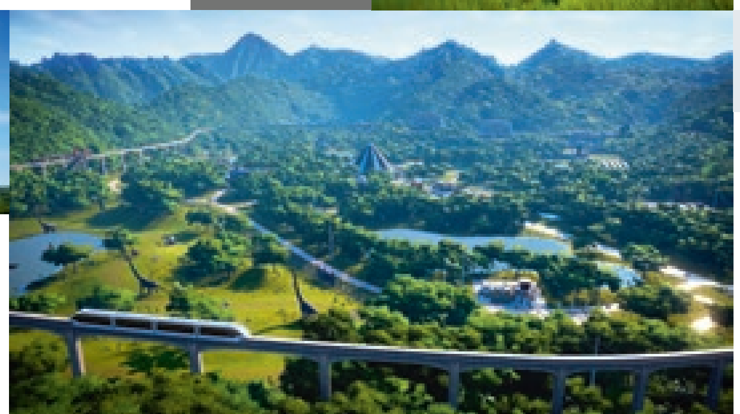
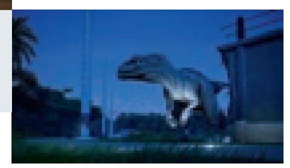
Jurassic World Evolution's first PDLC pack was available at launch and as a bundle during pre-order, and we plan to add further free updates and paid-for content in the future, as we have for our other franchises.

JURASSICWORLDEVOLUTION.COM





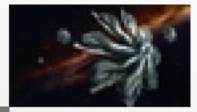
Ongoing development

DINOSAUR UPDATE
JUNE 2018
This update introduced three new dig sites, a cast of new dinosaurs which you can bring to your island, and new InGen database entries.

SEPTEMBER 2018 UPDATE
On 29 August 2018 we announced a free update for *Jurassic World Evolution* for release on 13 September 2018. The update will include enhancements to gameplay including an all new Challenge Mode, more Sandbox options and new contract types. It will also include visual enhancements such as sizing adjustments for certain dinosaurs, lighting options and new viewing cameras. Two more languages will also be added in the update: Korean and Italian.

> **"*Jurassic World Evolution's* first PDLC pack was available at launch and as a bundle during pre-order, and we plan to add further free updates and paid-for content in the future, as we have for our other franchises."**

A SOLID SET **OF RESULTS**



> **"Elite Dangerous and Planet Coaster continue to deliver."**

OVERVIEW

The ongoing performance of *Elite Dangerous* and *Planet Coaster* delivered a solid set of financial results for the 12 months ending 31 May 2018 ('FY18'), following the significant step-up in financial performance achieved in the prior period ('FY17') which resulted from the launch of *Planet Coaster* in November 2016. The Group generated operating profits of £2.8 million (FY17: £7.8 million) despite increased investments in development and marketing, particularly for *Jurassic World Evolution*. Cash balances were boosted in the period by the £17.7 million strategic investment by Tencent in July 2017; cash balances at 31 May 2018 were £24.1 million.

TRADING

Total annual revenue was £34.2 million in the period (FY17: £37.4 million) with both *Elite Dangerous* and *Planet Coaster* continuing to deliver sustained revenue from both sales of the game and PDLC. The ongoing performance of both titles reflects Frontier's approach to sustaining and nurturing existing franchises. It is worth noting that *Elite Dangerous* achieved its highest annual revenues to date in FY18 following a successful launch on PlayStation 4 in June 2017.

Self-publishing revenue accounted for 95% of sales (FY17: 97%) with the balance being related to our legacy work-for-hire business. This legacy revenue included income from a royalty dispute which was settled in the period.

Gross profit was £24.1 million in the year (FY17: £27.4 million) with gross margin at 70.5% (FY17: 73.2%). The largest element of cost of sales is the margin payable to our digital distribution partners. The reduced margin in FY18 largely resulted from the launch of *Elite Dangerous* on PlayStation 4 and the release of lower margin physical disc sales of *Elite Dangerous* on Xbox One and PlayStation 4.

Gross research and development expenses in the period were £15.9 million (FY17: £12.7 million). The majority of spend related to internal staff costs, and the increase in the year largely reflects headcount increases. However, outsourcing is becoming a more significant cost element and accounts for some of the increase in total gross spend in the period. Capitalisation of development costs on franchise assets and other intangibles accounted for £13.4 million in the period (FY17: £9.6 million), with development costs of *Jurassic World Evolution* being the largest element. Amortisation charges grew to £6.0 million for the period (FY17: £4.5 million) reflecting a full year of amortisation charges for *Planet Coaster*. Net research and development expenses recorded in the income statement in the year were therefore £8.5 million (FY17: £7.6 million), being gross spend, less capitalised costs, plus amortisation charges.

Sales, marketing and administrative expenses grew to £12.8 million (FY17: £11.9 million). Increases in marketing and facilities costs were partially offset by lower foreign exchange charges and a lower level of profit related bonus accrual. The increased investment in marketing supported the ongoing success of existing franchises as well as the launch of *Jurassic World Evolution* in June 2018, with some of the E3 event related marketing costs falling in June 2018 (and therefore the FY19 income statement).

As anticipated, the lower level of annual sales, lower gross profit margin and higher level of operating costs resulted in a reduction in operating profit in the period to £2.8 million (FY17: £7.8 million). EBITDA (earnings before interest, tax, depreciation and amortisation) reduced to £9.4 million (FY17: £12.7 million).

A corporation tax credit of £0.7 million was recorded in the year (FY17: a charge of £0.1 million). The credit resulted from the release of a prior year accrual following completion of the FY17 tax return. The Group benefits from Video Games Tax Relief and has accrued tax losses estimated to be in excess of £10 million as at 31 May 2018.

Profit after tax for FY18 was £3.6 million (FY17: £7.7 million) and basic earnings per share was 9.6p (FY17: 22.7p).

BALANCE SHEET AND CASHFLOW

The Company continued to run a robust balance sheet during the financial year, and this was further boosted by the strategic investment from Tencent completed in July 2017.

Tangible assets increased to £5.0 million (FY17: £0.7 million) as a result of the fit-out of the new leased office facility, which the Company occupied in April 2018.

Intangible assets increased by £7.3 million to £29.2 million at 31 May 2018 (FY17: £21.9 million) as investments in franchise assets, particularly *Jurassic World Evolution*, and other intangibles exceeded amortisation charges.

Trade and other receivables was £6.7 million at the end of the period (FY17: £2.9 million) with the increase largely due to pre-order sales for *Jurassic World Evolution*. Total deferred income showed a similar change for the same reason, with an increase to £4.3 million (FY17: £1.4 million).

Trade and other payables totalled £5.9 million (FY17: £4.9 million) with the increase reflecting accrued distribution costs on *Jurassic World Evolution* pre-order sales, partly offset by a lower level of profit related bonus accrual.

Cash balances increased £11.5 million during the year to £24.1 million (FY17: £12.6 million), as a result of the Tencent strategic investment of £17.7 million. Operating cash flow (operating profit excluding non-cash items, less investments in franchises and other intangible assets) was an outflow of £2.8 million in the period (FY17: an operating cash inflow of £3.4 million), with the change reflecting lower sales and higher levels of investment.

SHARE ISSUES

Employees exercised options over 1,051,117 Ordinary Shares during the 12 months to the end of May 2018. Of this total, 985,517 were newly issued shares with the remaining 65,600 resulting from transfers under arrangements with the Employee Benefit Trust.

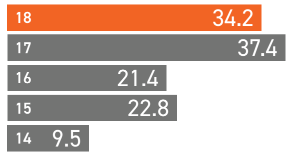
In July 2017 the Company completed a strategic investment with Tencent Holdings Limited. Tencent acquired 3,386,252 newly issued Ordinary Shares at 523.2p per share, generating proceeds of £17,716,870.

ALEX BEVIS
CFO & COMPANY SECRETARY
5 September 2018

Financial KPIs

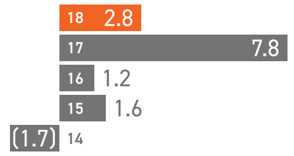
Total revenue (£m)

£34.2m



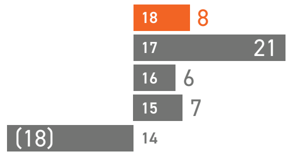
Operating profit (£m)

£2.8m



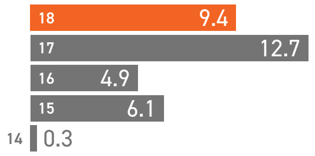
Operating margin (%)

8%



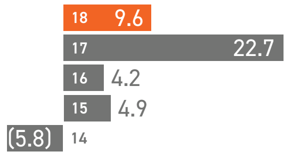
EBITDA* (£m)

£9.4m



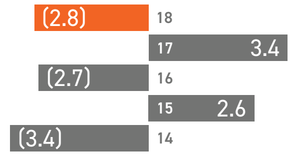
EPS (basic) (p)

9.6p



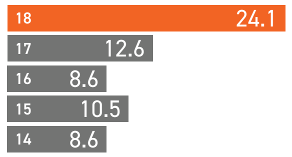
Operating cash flow** (£m)

£(2.8)m



Net cash balance (£m)

£24.1m



* Earnings before interest, tax, depreciation and amortisation

** Operating profit excluding non-cash items, less investments in franchises and other intangible assets

WE EFFECTIVELY IDENTIFY **AND MANAGE RISKS**

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	Change
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. **Links to strategy** INVEST DEVELOP PUBLISH	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. In 2017 we expanded our HR team to add dedicated talent acquisition resources. We also balance internal and external resources through outsourcing. Brexit is an obvious concern in respect of sourcing and retaining talent from the EU, and we continue to monitor this issue.	No change
Staff retention Staff departures could create staff and key skill/experience shortages and compromise the execution of the Group's business plan. **Links to strategy** INVEST DEVELOP PUBLISH	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.	No change
Cybersecurity A breach of security could take many forms and could significantly impact the business and impair its self-publishing plans. Exposure includes that of failure of security at our partners, including Amazon, Valve, Microsoft and Sony. **Links to strategy** INVEST DEVELOP PUBLISH	We review our security provisions regularly and believe them to be in accordance with industry best practices.	No change
Execution risk The Group has transitioned from a work-for-hire model to a multi-franchise self-publishing model. Whilst successful project execution is very important under both models, inherently both the rewards and the risks under a self-publishing model are probably greater. **Links to strategy** INVEST DEVELOP PUBLISH	Frontier has a long history of strong project execution. Nevertheless, it is vital Frontier continues to push itself and so avoid complacency to retain its excellent execution record. It must continue to challenge its own internal assumptions and those about the industry trends to remain at the forefront of the industry. 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.	No change

Change in risk

No change Increase Decrease

Description	Mitigation	Change
Currency risk The majority of Frontier's resources are located in the UK and therefore the Group's operating costs are mainly in Pounds Sterling (GBP). Sales are global, in multiple countries and in multiple currencies. The Group therefore has short-term transaction and translation risks, in addition to the longer-term economic risk of developing in the UK and selling worldwide. The largest exposure is the US Dollar (USD). **Links to strategy** INVEST DEVELOP PUBLISH	The Group has expanded its revenue sources and there has been a subsequent increase in revenue from non-GBP currencies in the last few years. Whilst the longer-term economic risks of selling globally cannot be avoided, forward contracts have been used to gain certainty over the rate of conversion of foreign currency income. The Group will continue to review the most effective way of managing transaction and translation risks.	Increase
Growth management The Group's future success will depend on its ability to manage and fund its anticipated expansion through the utilisation of internal resources together with the realisation of external opportunities such as outsourcing, commissioning and publishing. These external opportunities may also include acquisitions. Such expansion and investment are 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. **Links to strategy** INVEST DEVELOP PUBLISH	In order to mitigate the risk, the Group has invested in suitable training for key staff and key internal systems. The Group's Board includes experienced Non-Executive Directors who ensure risks are managed regularly and objectively. The Group prudently manages its liquidity by monitoring forecast cash inflows and outflows both in the short and medium terms, as well as its long-term investment needs and opportunities.	Increase
Market disruption The Group operates in a fast-moving industry where competitive products, larger competitors, new market trends or disruptive technology may emerge which reduce its ability to compete and execute its business plan. **Links to strategy** INVEST DEVELOP PUBLISH	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

This strategic report was approved by the Board and signed on its behalf by

ALEX BEVIS
CFO & COMPANY SECRETARY
5 September 2018

BOARD OF DIRECTORS

AN EXPERIENCED **TEAM**

DAVID GAMMON
NON-EXECUTIVE CHAIRMAN
David joined the Board in 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 is CEO founder of Rockspring, an advisory and investment firm, which focuses on early stage technology companies. Other current positions include non-executive directorship at Accesso Technologies plc, Raspberry Pi Trading Limited and he acts as an advisor to Marshall of Cambridge (Holdings) Limited. In 2017 David was elected as an Hon Fellow of the Royal Academy of Engineering and in 2018 a member of the Scale Up Institute.

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.

Committee membership
Audit (Chair)
Nominations (Chair)
Remuneration (Chair)

DAVID BRABEN
FOUNDER & CEO
David was the founding shareholder of Frontier in January 1994

David is the co-author of the seminal Elite title and has over 35 years' experience in the games 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 is also a member of Cambridge Angels, investing and supporting early stage companies. 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.

Committee membership
Nominations

DAVID WALSH
CHIEF OPERATIONS OFFICER
David joined the Board in 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 US subsidiary.

At the AGM in October 2018 our Chief Operating Officer, David Walsh, will transition to a Non-Executive Director role in order to focus his attention on a start-up opportunity outside of the games industry.

JONNY WATTS
CHIEF CREATIVE OFFICER
Jonny joined the Board in February 2012

Jonny has over 30 years' experience in gaming. He joined Frontier Developments in 1998 from Sensible Software. Over the course of his career he has been involved in all aspects of the creation of over 30 published games such as *Sensible Soccer* and *Cannon Fodder*, along with Frontier's suite of games, including *RollerCoaster Tycoon 3*, *Elite: Dangerous*, *Planet Coaster* and *Jurassic World Evolution*.

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 40 million people worldwide.

Jonny holds zoology and computer science degrees and is an active member of BAFTA, serving as a judge for nine years. He is committed to supporting future developers, including initiatives such as Brains Eden.

CHARLES COTTON
NON-EXECUTIVE DIRECTOR
Charles joined the Board in 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 number of strategic, technical and financial roles including as a director of Cambridge Enterprise and chairing the Scientific Advisory Panel for Cambridge Innovation Capital. He also founded and is chairman of Cambridge Phenomenon Ltd. and has co-authored two books; The Cambridge Phenomenon 50 Years of Innovation and Enterprise and The Cambridge Phenomenon: Global Impact.

Committee membership
Audit
Nominations
Remuneration

ALEX BEVIS
CFO & COMPANY SECRETARY
Alex joined the Board in April 2017

Alex has over 17 years' experience in high growth technology businesses. Alex joined Frontier from Xaar plc (FTSE: XAR), a world leader in industrial inkjet technology, where he was Chief Financial Officer from February 2011. Prior to this, Alex rose to VP Finance of Cambridge fabless semiconductor company CSR plc during a 10 year period during which CSR listed on the main market, and grew significantly both organically and through acquisition. Alex qualified as a Chartered Accountant with Deloitte in Cambridge prior to joining CSR in 2000.

JAMES MITCHELL
NON-EXECUTIVE DIRECTOR
James joined the Board in September 2017

James is Chief Strategy Officer and Senior Executive Vice President at Tencent. He is responsible for various functions, including the strategic planning and implementation, investor relationships, and mergers, acquisitions and investments activity. James joined Tencent in 2011. Prior to this James was a managing director at Goldman Sachs in New York, leading the bank's communications, media and entertainment research team, which analysed internet, entertainment and media companies globally. James received a degree from Oxford University and holds a Chartered Financial Analyst Certification.

The Directors present their report for the Group and Company together with the financial statements for the year to 31 May 2018. 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 pages 1 to 17). Information on the financial risk management strategy is given within that report and in note 24 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. In July 2017 the Group received a strategic investment of £17.7 million from Tencent Holdings Limited. As at 31 August 2018 the Group's cash balances totalled £46.2 million. In addition the Group has a revolving credit facility with Barclays Bank plc of £4 million.

SHARE ISSUES

Details of shares issued during the year are given in the Financial Review and in note 19 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.

The following Directors' share transactions occurred during the year:

David Braben sold 3,000,000 shares in September 2017 for a price of 920p per share.

Jonny Watts exercised options over 100,000 shares in September 2017 at a price of 257.5p per share. Following the exercises, Mr. Watts sold 127,838 shares for 920p per share, therefore reducing his net shareholding by 27,838 shares.

David Walsh exercised options over 20,000 shares in September 2017 at a price of 89p per share, 180,000 shares at a price of 95p per share and 100,000 shares at a price of 257.5p per share. Following these exercises, all 300,000 of these shares were sold at a price of 920p per share, in addition to a further 422,910 shares, which were also sold for 920p per share. These sales of shares by Mr. Walsh concluded his obligations under a court order related to his divorce settlement. In November 2017 Mr. Walsh purchased 3,500 shares for a price of 1304p per share.

Alex Bevis purchased 2,000 shares in September 2017 for a price of 978p per share.

Charles Cotton purchased 3,700 shares in September 2017 for a price of 1350p per share. In November 2017 Mr. Cotton purchased 8,067 and 8,850 shares for a price of 1335p and 1296p per share respectively. These transactions included purchases made by Mr. Cotton's wife.

DIRECTORS

The Directors who held office at 31 May 2018 and their interest in the share capital of the Company were as follows:

Name	2018 Number	2018 %	2017 Number	2017 %
David Gammon*	**341,720**	**0.9**	341,720	1.0
David Braben*	**14,149,953**	**36.5**	17,160,953	50.1
David Walsh*	**3,500**	**0.0**	422,910	1.2
Jonathan Watts	**40,000**	**0.1**	67,838	0.2
Charles Cotton*	**156,586**	**0.4**	135,969	0.4
Alex Bevis	**17,000**	**0.0**	15,000	0.0
Total	**14,708,759**	**38.0**	18,144,390	53.0

* Including direct family holdings where applicable.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law, the Directors have prepared 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 significant resources into the development of franchise assets and 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 10 of the financial statements). The Group's gross research and development spend to support its strategy was £15.9 million in the year (FY17: £12.7 million).

DIVIDEND

The Directors are not recommending the payment of a dividend (2017: £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 bonus scheme for all staff. In addition, it seeks to issue share options at relevant times or to utilise other equity plans where appropriate.

EMPLOYMENT POLICIES

The Group is committed to following UK employment law for its Cambridge-based 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 2018 the following, other than the Directors whose shareholdings are listed on page 20, had notified the Company of disclosable interests in 3% or more of the issued share capital of Frontier Developments plc:

Name	Shareholding	%
Tencent Holdings	3,386,252	8.74
Lansdowne Partners	2,644,138	6.83
Swedbank Robur	2,451,273	6.33
OppenheimerFunds	2,000,000	5.16
Polar Capital	1,691,446	4.37

AUDITOR

A resolution to reappoint 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.

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY
5 September 2018

EFFECTIVE AND **EFFICIENT GOVERNANCE**

CHAIRMAN'S INTRODUCTION AND SUMMARY

Since joining the Company in 2012 it has been my responsibility, as Chairman, to ensure that the Company has appropriate corporate governance arrangements in place and that those arrangements are effective and efficient through regular review. In 2013 the Company listed on AIM, and as a result I led the Board to establish corporate governance arrangements through the consideration of best practice guidelines and aspects of the UK Corporate Governance Code relevant to the Company. Prior to 2018, as an AIM-listed company, Frontier was not required to comply with a corporate governance code but we reviewed our arrangements against the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-Sized Companies. The AIM rules changed in 2018 and as a result the Board has refined the Company's corporate governance arrangements in order to follow the ten principles of the QCA Corporate Governance Code.

The table below sets out the ten principles of the QCA Code and provides direction to the relevant section in this Annual Report.

	QCA Code principle	Relevant section(s) of the Annual Report
1	A strategy and business model for long-term value creation	CEO Review (page 4) Strategic Review (pages 1–17)
2	Understand and meet shareholder needs and expectations	Investor relations – Corporate Governance Report (page 25)
3	Understand and meet wider stakeholder needs and social responsibilities	Strategy and business model – Strategic Review (pages 6–7) Corporate culture and social responsibility – Corporate Governance Report (page 26)
4	Embedded risk management	Strategy and business model – Strategic Review (pages 6–7) Risk Review (pages 16–17) Internal control and business risk – Corporate Governance Report (page 25)
5	A well-functioning and balanced Board	Board of Directors (pages 18–19) Board overview – Corporate Governance Report (pages 23–24)
6	Board experience, skills and capabilities	Board of Directors (pages 18–19) Board overview – Corporate Governance Report (pages 23–24)
7	Performance of the Board and continuous improvement	Board overview – Corporate Governance Report (pages 23–24)
8	Corporate culture based on ethical values and behaviours	Corporate culture and social responsibility – Corporate Governance Report (page 26)
9	Effective governance structures which support good decision making	Chairman's introduction and summary – Corporate Governance Report (page 22) Board overview – Corporate Governance Report (pages 23–24) Board Committee reports – Corporate Governance Report (page 24)
10	Communication of Company governance and performance	Chairman's introduction and summary – Corporate Governance Report (page 22) Board Committee reports – Corporate Governance Report (page 24)

BOARD OVERVIEW

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).

The Board seeks to meet regularly during the year and the entire Board is invited to attend all meetings. In the financial year to 31 May 2018 the Board met on nine occasions. 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 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, the 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 and nominated advisor and broker;
- appointment and performance review of key advisors; and
- approval of letters of recommendation for the Employee Benefit Trust in respect of the operation of share option schemes.

The composition of the Board of Directors is illustrated on pages 18 and 19. The Board of Frontier Developments plc is currently comprised of seven Directors: the Non-Executive Chairman, two further Non-Executive Directors and four Executive Directors, the Chief Executive Officer, Chief Operating Officer, Chief Creative Officer and Chief Financial Officer (who is also 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.

The Board, led by the Chairman, regularly reviews the overall performance of the Board and makes adjustments to ensure the structure and focus of the Board meet the evolving requirements of the Company. In 2018 the Board established a formal Board assessment process based on a QCA structured questionnaire. As a result of this assessment, actions were taken to improve and formalise certain Board processes and reports.

All Directors are subject to election at the first Annual General Meeting following their appointment and to re-election annually thereafter.

The Chairman and Chief Executive have distinct roles; the principle responsibility of the Chairman is the effective operation of the Board of Directors, whilst the Chief Executive is responsible for the operation of the Company to deliver on its strategic objectives.

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

The Board considers all three Non-Executive Directors (the Non-Executive Chairman and the two Non-Executive Directors) to be independent in terms of their ability to make unencumbered decisions for the long-term success of the Company:

DAVID GAMMON

David joined the Board in 2012 as Chairman to define and support the Company's transition plans. Rockspring, a company connected to David, was issued with warrants and share options in connection with work Rockspring undertook in relation to Frontier's pre-IPO funding and IPO in 2013. David has a diverse range of business interests and it is the Board's belief that the warrants and options granted to Rockspring have not prevented David from making independent decisions; in fact, it is the Board's belief that such arrangements can support a greater alignment of Non-Executive Director interests with the long-term interests of the Company.

CHARLES COTTON

Charles joined the Board in 2016. Share options were awarded in 2016 and 2017 to Charles in relation to his recruitment into the role. The Board does not consider that these option awards have, or will, encumber Charles' ability to make independent, effective decisions that benefit the long-term success of the Company; in fact, it is the Board's belief that such arrangements can support a greater alignment of Non-Executive Director interests with the long-term interests of the Company.

BOARD OVERVIEW CONTINUED

JAMES MITCHELL

James is Chief Strategy Officer at Tencent and was invited to join the Board in 2017 following Tencent's £17.7 million strategic investment in Frontier. Tencent owns approximately 9% of Frontier's issued share capital. The Board does not consider that this shareholding encumbers James' ability to make independent, effective decisions that benefit the long-term success of the Company. Tencent is one of the largest companies in the world and it has a broad and diverse range of interests.

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 (Committee Chair) and Charles Cotton. The Committee is supported by Alex Bevis, CFO and Company Secretary.

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 2018 the Audit Committee met on three occasions, and all three meetings were attended by the external Auditor (Grant Thornton).

Key areas of activity

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

REMUNERATION COMMITTEE

The Remuneration Committee comprises only independent Non-Executive Directors; its members are David Gammon (Committee Chair) and Charles Cotton. The Committee is supported by Alex Bevis, CFO and Company Secretary, and Yvonne Dawes, HR Manager.

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 2018 the Remuneration Committee met on five occasions.

Key areas of activity

- Review of Director remuneration against benchmark data
- Review of staff benefits through employee surveys and benchmarking
- Equity scheme establishment; Sharesave and LTIP
- Pension planning and execution
- Bonus scheme assessment and implementation

NOMINATIONS COMMITTEE

The Nominations Committee comprises David Gammon (Committee Chair), Charles Cotton and David Braben.

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

In the financial year to 31 May 2018 the Nominations Committee met on two occasions.

Key areas of activity

- Assessment of the need for further Non-Executives
- Appointment of James Mitchell as Non-Executive Director
- Review of senior positions required to strengthen the organisation and succession planning

ATTENDANCE AT MEETINGS DURING THE PERIOD

	Board	Remuneration Committee	Nominations Committee	Audit Committee
Number of meetings	●●●●●●●●●	●●●●●	●●	●●●
David Gammon	●●●●●●●●■	●●●●●	●●	●●●
David Braben	●●●●●●●●●	—	●●	—
David Walsh	●●●●●●●●■	—	—	—
Alex Bevis	●●●●●●●●●	—	—	—
Jonathan Watts	●●●●●●●●●	—	—	—
Charles Cotton	●●●●●●●●●	●●●●●	●●	●●●
James Mitchell	●●●●●■■■■	—	—	—

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. James Brown of Grant Thornton has been the audit partner since 2017 (the first period of his tenure being for the 12 months ended 31 May 2017).

SENIOR MANAGEMENT AND GROUP FUNCTIONS

Frontier's senior management is involved in multiple functions within the Company.

It is 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.

Project and departmental risks are assessed and presented at weekly progress meetings.

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

The Company's overall risk assessment process is facilitated by the COO, who runs weekly operational progress meetings and holds and appraises the Corporate Risk Register (CRR) with the Executive Directors at least once a year.

A further review is then undertaken with senior management and the CRR 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 both current and potential shareholders through investor roadshows linked to annual and interim results, investor conferences and ad-hoc meetings and conference calls. In addition to externally located meetings, the Company also hosts investors for on-site meetings. Investor relations activity is led by the CFO, and meetings are typically presented by the CEO and CFO. The Chairman regularly meets with investors as required and the other Directors also participate in investor activity.

The Company's website has a dedicated investor page which contains the latest information including the most recent results presentation.

CORPORATE CULTURE AND SOCIAL RESPONSIBILITY
The Company operates in the competitive, technically challenging and highly creative games industry. Successful projects in this constantly evolving industry require clear and ambitious creative vision, keen awareness of customer preferences and habits, very high attention to detail, world-class multi-disciplinary ability and effective project management skills. These characteristics have defined the culture of the Company and the Board, and we believe that our inclusive, meritocratic high-performance culture supports the ambitious vision for the Company that we have established.

Although the Board considers that Frontier's four key stakeholder groups are its players, its shareholders, its staff and its business partners, it acknowledges the Company's responsibilities to the local community in which it has major operations, principally Cambridge, and the wider video games industry. The Company participates in local and national events which promote the video games industry and computer science, such as Games Eden, as well as establishing relationships with students in partner universities by contributing to courses and mentoring projects. The Company recruits a large number of graduates and takes its responsibility seriously to support and mentor its recruits. The Company also undertakes charity activity such as supporting Special Effect, a charity which puts the fun and inclusion back into the lives of people with physical disabilities by helping them to play video games. Our Chief Executive, David Braben, is personally active in the promotion of computer science in the UK, including through his role as a founder and director of the Raspberry Pi foundation and by contributing to discussions on local and national government policy.

ANNUAL GENERAL MEETING
The AGM will be held at:

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

On:

Tuesday 16 October 2018

At: 9.15 am

The Company's Annual General Meeting (AGM) affords shareholders the opportunity to question the Chairman and the Board.

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, Alex Bevis, Frontier Developments plc, 26 Cambridge Science Park, Milton Road, Cambridge CB4 0FP, 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 Annual General Meeting on pages 61 to 64.

Notice of the AGM, the Form of Proxy and the Annual Report are sent to shareholders at least 21 days before the AGM via post.

REMUNERATION REPORT

As Frontier Developments is an AIM-listed company it is not required to disclose all the information included in this 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 two Non-Executive Directors of the Company, David Gammon (Company and Committee Chairman) and Charles Cotton. The Committee is supported by Alex Bevis, CFO and Company Secretary. The Remuneration Committee meets at least twice a year.

The Remuneration Committee is responsible for the following functions:

- setting of remuneration for Directors and 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."

In 2016 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. This was supplemented with ad-hoc benchmarking reports in 2017 and 2018.

Having reviewed the reports, the Remuneration Committee made changes to the various components of Directors' remuneration in FY16, FY17 and FY18. No substantial changes are planned for FY19.

COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION
OVERVIEW
The remuneration policy is to establish and maintain arrangements and individual packages which attract, retain and motivate the talent necessary to support the Company's strategy. The Committee believes it is important to achieve an appropriate balance between fixed elements of remuneration and performance related elements, with a particular focus on the latter given the Company's growth aspirations.

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.

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
For FY18 all four Executive Directors were paid an annual salary of £200,000, which was broadly in line with benchmarking analysis at the start of the period (June 2017).

ANNUAL BONUS
In December 2017 bonuses of £200,000 (being 100% of salary) were paid to each of the four Executive Directors in relation to performance in the 12 months ended 31 May 2017. In the case of Alex Bevis, our CFO who joined in April 2017, the bonus payment related in part to contractual recruitment arrangements.

To support the Company's scale-up a new scheme covering the two-year period starting 1 June 2017 and ending on 31 May 2019 was established for all employees, including the Executive Directors. Bonus payouts will be determined by individual performance and by the Company's financial performance against a target range. The chosen financial performance measure is operating profit as reported under IFRS. An interim payment will be made in December 2018 with the final payment in September 2019. It is anticipated that following this two-year period, the Company will return to a more typical annual bonus scheme but with similar performance-based characteristics.

EQUITY
The Company runs an HMRC-approved Company Share Option Plan (CSOP). In the year to 31 May 2018 David Walsh and Jonathan Watts were each awarded approved options over 2,742 Ordinary Shares at an exercise price of 1094p per share under the CSOP.

During the 12 months ended 31 May 2018, the Committee established two new schemes.

The first scheme was an all-employee HMRC-approved Sharesave scheme which rewards participants for committing to a monthly savings contract over a three-year period with a discounted share option which is granted at the start of the savings contract. This scheme encourages share ownership and commitment to the Company, whilst providing another opportunity for our people to share in the success of the Company.

In the year to 31 May 2018 David Walsh, Jonathan Watts, David Braben and Alex Bevis were each awarded options over 1,890 Ordinary Shares at an exercise price of 952p per share under the Sharesave scheme.

The second scheme established in the year to 31 May 2018 was a Long Term Incentive Plan (LTIP) targeted at Executive Directors and senior management. Under the scheme, share options with zero exercise price are issued, with vesting after three years dependent on appropriate performance criteria. For the Executive Directors the performance criteria is shareholder return. The LTIP scheme largely replaces the CSOP scheme, although the CSOP will continue to be used in certain circumstances.

COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

EQUITY CONTINUED

In the year to 31 May 2018 David Walsh and Jonathan Watts were each awarded options over 19,016 Ordinary Shares and David Braben and Alex Bevis were each awarded options over 19,930 Ordinary Shares under the LTIP.

PENSION CONTRIBUTIONS, MEDICAL INSURANCE AND OTHER BENEFITS

Three of the Executive Directors are members of the Group's pension scheme, but all four Executive Directors receive pension benefits. All of the Executive Directors participate in all-staff benefit arrangements. A basic life cover sum of £25,000 per person was adopted from 1 October 2013. From 1 October 2017 the basic life cover was three times annual salary and additional units above this amount can be purchased through salary sacrifice arrangements and one Director elected into this. From 1 October 2017 basic health cash plan cover commenced for all employees including Executive Directors. Additional cover above this amount can be purchased through payroll deductions and one Director elected into this.

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.

Pension auto-enrolment of a 3% employer contribution commenced from 1 September 2017. Effective 1 August 2018 the rate increased to 5%. These benefits are the same as adopted for all UK-based staff.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of Non-Executive Directors is determined by the Board and reflects their anticipated time commitment to fulfil their duties. The Non-Executive Directors' remuneration is subject to the same principles of the remuneration policy for the Group and the same transitional phase of alignment to median market rates was undertaken. The letters of appointment of Non-Executive Directors can be terminated with six months' notice for the Chairman and three months' notice 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 in 2013 (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	FY18 Total £'000	FY17 Total £'000
Executive						
David Braben	200	200	5	2	407	232
David Walsh*	173	200	4	2	379	232
Jonathan Watts	200	200	5	1	406	232
Alexander Bevis	200	200	10	1	411	33
Non-Executive						
David Gammon	55	–	–	–	55	55
Charles Cotton	30	–	–	–	30	28
James Mitchell**	–	–	–	–	–	–
Total	**858**	**800**	**24**	**6**	**1,688**	**812**

* David Walsh reducing his working hours during FY18, with approval of the Chairman.

** James Mitchell waived his fee.

The expense recognised in the statement of comprehensive income for the Directors' share options (including Non-Executive Directors) was £346,852 (2017: £147,752), with the amount attributable to the highest paid Director being £220,675 (2017: £91,083).

The gain attributable to Directors on share options in the year at the date of exercise was £3,110,205 (2017: £279,662).

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
5 September 2018

INDEPENDENT AUDITOR'S REPORT

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

OPINION

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Frontier Developments plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 May 2018, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cashflows, the company statement of financial position, the company statement of cashflows, the company of statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements 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.

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 2018 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 IFRS 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

WHO WE ARE REPORTING TO

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.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OVERVIEW OF OUR AUDIT APPROACH

- Overall materiality: £234,000, which was determined at the planning stage, based on 2.5% of the group's earnings before interest, taxes, depreciation and amortisation;
- Key audit matters were identified as improper revenue recognition, impairment of intangible assets and capitalisation of intangible assets; and
- Full-scope audit procedures were performed by the audit team over the financial statements of the parent company, Frontier Developments plc, with targeted procedures performed over the financial information of its subsidiary undertaking, Frontier Developments Inc.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
IMPROPER REVENUE RECOGNITION Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue due to fraud. The group has two revenue streams: self-published franchises and other revenue such as royalties. The accounting policy is to recognise self-published revenue on download of the game or upon purchase of in-game digital items. The nature of the group's revenue involves the processing of a high volume of transactions and deferral of revenue where pre-orders are received. Revenue earned from royalties is estimated on an accruals basis. As the group's revenue is material to the financial statements and involves deferral of revenue and multiple recognition policies, we identified the risk of improper revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • considering the stated accounting policy in respect of revenue recognition, testing whether revenue had been accounted for in accordance with the accounting policy and evaluating whether these are consistent with IAS 18 'Revenue'; • performance of analytical procedures over revenue throughout the year, with additional focus on revenue recognised in the final quarter, to identify and corroborate significant or unusual trends in revenue outside of our expectations; • performing detailed testing of revenue from self-published software by agreeing a sample of transactions to supporting third party sales reports; • testing of royalty revenue by agreeing a sample of transactions to third party sales reports and royalty agreements; and • testing appropriate cut-off of revenue by testing sales transactions occurring near the year-end to supporting reports to confirm the sale and related debtor has been recorded in the correct accounting period. The group's accounting policy on revenue recognition is shown in note 3 to the financial statements and related disclosures are included in note 4. **Key observations** Our audit testing did not identify any material deviations in the group's revenue recognition accounting policy from IAS 18. In addition, our audit work did not identify any material errors in the occurrence of revenue recognised in the year or any material instances of revenue not being recognised in accordance with stated accounting policies.

KEY AUDIT MATTERS CONTINUED

Key Audit Matter – Group	How the matter was addressed in the audit – Group
IMPAIRMENT OF INTANGIBLES At the year end, the group had intangible assets with a net book value of £29,197,000 (2017: £21,871,000). Of this, the carrying value of capitalised franchise assets related to self-published software amounts to £28,035,000 (2017: £20,647,000). These costs are amortised by the group to ensure the capitalised cost reflects the anticipated benefit of the franchise asset to the group over time. There is a risk that these capitalised costs may be impaired, if the value of the asset cannot be supported by the net realisable value. In accordance with IAS 36 'Impairment of Assets,' the directors and management have performed an annual impairment review, which compares the net book value of the assets plus the estimated costs to complete to the net realisable value, calculated by determining future revenues discounted to present value. This assessment performed by management incorporates key assumptions over the timing and extent of future revenues, costs to complete, and the discount rate used. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, we identified the impairment of intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • obtaining management's impairment assessment and verifying its mathematical accuracy; • checking the estimated costs to complete the franchise asset by corroborating the inputs into the calculation and comparing to historical data; • obtaining an understanding of the basis used in management's revenue forecast for each franchise asset and challenged the estimates used through comparison of prior year budgets to actual performance and 2019 budgets against actual revenue; and • evaluating and challenging the information included in the impairment models through our knowledge of the business gained through reviewing trading plans for each franchise asset and discussions with management. The group's accounting policy on intangibles is shown in note 3 to the financial statements and related disclosures are included in note 10. **Key observations** Our audit testing did not identify any indicators of impairment impacting the carrying value of capitalised development costs. We found no material errors in calculations completed.
CAPITALISATION OF INTANGIBLE ASSETS During the year, the group has capitalised £12,489,000 (2017: £9,076,000) of development costs in relation to various projects. The directors and management assess each project according to IAS 38 'Intangible Assets' criteria throughout the project life. Judgement is required to determine whether criteria are met, in particular the future economic benefits that will be generated and the intention of the group to complete development and use or sell the asset. These judgements are dependent on expectations of future events. There is a risk that the costs capitalised do not meet the criteria for capitalisation in accordance with IAS 38. We therefore identified the capitalisation of intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing whether the accounting policy was in accordance the financial reporting framework and testing whether the capitalisation of intangible assets had been accounted for in accordance with that policy; • assessing product development activities against the qualifying nature of the projects to ensure that capitalisation is in accordance with the appropriate criteria under IAS 38; • checking the mathematical accuracy of calculations; • performing detailed substantive testing of additions in the year, through tracing a sample of capitalised labour costs to supporting payroll records and non-payroll costs to invoices; and • obtaining an understanding from management of the costs capitalised and challenging where amounts are being capitalised for franchise assets subsequent to their release and corroborating that the additional costs relate to enhancements. The group's accounting policy on intangible assets is shown in note 3 to the financial statements and related disclosures are included in note 10. **Key observations** Based on our audit work, we found that intangible assets capitalised during the year were in accordance with stated accounting policies and corroborating documentation. We found no errors in the calculations.

We did not identify any separate key audit matters relating to the audit of the financial statements of the parent company.

OUR APPLICATION OF MATERIALITY

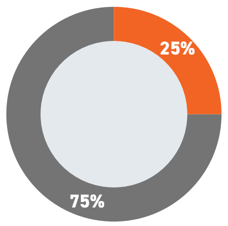
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

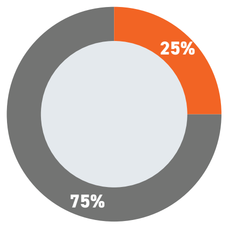
Materiality measure	Group	Parent
Financial statements as a whole	£234,000, which was determined at the planning stage of the audit based on 2.5% of the group's earnings before interest, taxes, depreciation and amortisation (EBITDA). This benchmark is considered the most appropriate because group EBITDA is a key performance indicator (KPI) for the group. Materiality for the current year is lower than the level that we determined for the year ended 31 May 2017, which reflects change in benchmark and measurement percentage from the prior year, when 4% of group profit before tax (PBT) was used. A lower measurement percentage of 2.5% was used in the current year, and when this is applied to the current year's group EBITDA, this gives a lower materiality for the current year. The benchmark was changed from group PBT as group EBITDA is considered to be less volatile to the development cycle for new games.	£210,000, which was determined at the planning stage of the audit based on 2.5% of the company's EBITDA. This benchmark is considered the most appropriate because company EBITDA is a KPI for the company. Materiality for the current year is lower than the level that we determined for the year ended 31 May 2017, which reflects change in benchmark and measurement percentage from the prior year, when 4% of company profit before tax (PBT) was used. A lower measurement percentage of 2.5% was used in the current year, and when this is applied to the current year's company EBITDA, this gives a lower materiality for the current year. The benchmark was changed from company PBT as company EBITDA is considered to be less volatile to the development cycle for new games.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£11,700 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

OVERALL MATERIALITY – GROUP



OVERALL MATERIALITY – PARENT



Tolerance for potential uncorrected misstatements

Performance materiality

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- evaluation by the audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of the group's total assets, revenues and profit before taxation;
- full scope audit procedures were performed by the audit team over the financial statements of the parent company, Frontier Developments plc;
- targeted audit procedures were performed by the audit team over the financial information of the parent company's subsidiary undertaking, Frontier Developments Inc.; and
- this approach has resulted in audit procedures being performed over 100% of the group's total revenues and 99.5% of the group's total assets. There was no change in scope of the audit over the prior year.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which 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.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 20 and 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

JAMES BROWN
SENIOR STATUTORY AUDITOR
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
5 September 2018

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2018

	Notes	31 May 2018 £'000	31 May 2017 £'000
Revenue	4	**34,192**	37,363
Cost of sales		**(10,092)**	(10,007)
Gross profit		**24,100**	27,356
Research and development expenses		**(8,500)**	(7,630)
Sales and marketing expenses		**(6,076)**	(4,310)
Administrative expenses		**(6,724)**	(7,624)
Operating profit		**2,800**	7,792
Finance income		**81**	21
Profit before tax	7	**2,881**	7,813
Income tax	8	**713**	(102)
Profit for the period attributable to shareholders		**3,594**	7,711

All the activities of the Group are classified as continuing.

	Notes	31 May 2018 p	31 May 2017 p
Earnings per share	9		
Basic earnings per share		**9.6**	22.7
Diluted earnings per share		**9.1**	22.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2018

	31 May 2018 £'000	31 May 2017 £'000
Profit for the period	**3,594**	7,711
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**2**	57
Total comprehensive income for the period attributable to the equity holders of the parent	**3,596**	7,768

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2018
(REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2018 £'000	31 May 2017 £'000
Non-current assets			
Intangible assets	10	**29,197**	21,871
Property, plant and equipment	11	**4,966**	696
		34,163	22,567
Current assets			
Trade and other receivables	12	**6,733**	2,941
Other short-term assets		**523**	510
Cash and cash equivalents	13	**24,124**	12,579
		31,380	16,030
Total assets		**65,543**	38,597
Current liabilities			
Trade and other payables	14	**(5,920)**	(4,894)
Deferred income	15	**(3,634)**	(459)
Current tax liabilities	16	**–**	(747)
Provisions	17	**(11)**	(275)
		(9,565)	(6,375)
Net current assets		**21,815**	9,655
Non-current liabilities			
Deferred income	15	**(690)**	(927)
		(690)	(927)
Total liabilities		**(10,255)**	(7,302)
Net assets		**55,288**	31,295
Equity			
Share capital	19	**193**	171
Share premium account		**34,132**	14,601
Equity reserve		**780**	972
Foreign exchange reserve		**(12)**	(4)
Retained earnings		**20,195**	15,555
Total equity		**55,288**	31,295

These financial statements were approved by the Directors on 5 September 2018 and signed on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2018

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2016	170	14,476	579	(61)	7,600	22,764
Profit for the year	—	—	—	—	7,711	7,711
Other comprehensive income:						
Exchange differences on translation of foreign operations	—	—	—	57	—	57
Total comprehensive income for the year	—	—	—	57	7,711	7,768
Issue of share capital net of expenses	1	125	—	—	—	126
Share-based payment charges	—	—	687	—	—	687
Share-based payment transfer relating to option exercises and lapses	—	—	(244)	—	244	—
EBT share inflows from issues and/or purchases	—	—	(318)	—	—	(318)
EBT share outflows from option exercises	—	—	268	—	—	268
Transaction with owners	1	125	393	—	244	763
At 31 May 2017	171	14,601	972	(4)	15,555	31,295
Profit for the year	—	—	—	—	3,594	3,594
Other comprehensive income:						
Exchange differences on translation of foreign operations	—	—	—	(8)	—	(8)
Exchange differences on translation of net investment	—	—	—	—	10	10
Total comprehensive income for the year	—	—	—	(8)	3,604	3,596
Issue of share capital net of expenses	22	19,531	—	—	—	19,553
Share-based payment charges	—	—	992	—	—	992
Share-based payment transfer relating to option exercises and lapses	—	—	(1,036)	—	1,036	—
EBT share inflows from issues and/or purchases	—	—	(263)	—	—	(263)
EBT share outflows from option exercises	—	—	115	—	—	115
Transaction with owners	22	19,531	(192)	—	1,036	20,397
At 31 May 2018	**193**	**34,132**	**780**	**(12)**	**20,195**	**55,288**

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

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MAY 2018

	31 May 2018 £'000	Restated 31 May 2017 £'000
Cash generated from operations	**10,252**	13,831
Taxes (paid)/received	**(41)**	456
Cashflow from operating activities	**10,211**	14,287
Investing activities		
Purchase of property, plant and equipment	**(4,660)**	(633)
Expenditure on intangible assets	**(13,503)**	(9,804)
Interest received	**81**	21
Cashflow from investing activities	**(18,082)**	(10,416)
Financing activities		
Proceeds from issue of share capital	**19,553**	125
Employee Benefit Trust net investment	**(148)**	(50)
Cashflow from financing activities	**19,405**	75
Net change in cash and cash equivalents from continuing operations	**11,534**	3,946
Cash and cash equivalents at beginning of period	**12,579**	8,610
Exchange differences on cash and cash equivalents	**11**	23
Cash and cash equivalents at end of period	**24,124**	12,579

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2018 £'000	Restated 31 May 2017 £'000
Operating profit	**2,800**	7,792
Depreciation and amortisation	**6,567**	4,864
EBITDA	**9,367**	12,656
Movement in unrealised exchange (gains)/losses on forward contracts	**287**	(337)
Share-based payment expenses	**992**	687
Operating cash flow before movements in working capital	**10,646**	13,006
Net changes in working capital:		
Change in inventories	**—**	9
Change in trade and other receivables	**(4,069)**	(479)
Change in trade and other payables	**3,939**	1,293
Change in provisions	**(264)**	2
Cash generated from operations	**10,252**	13,831

Capitalised development costs have been reclassified from operating activities to investing activities.

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 26 Science Park, Milton Road, Cambridge CB4 0FP.

The Group's operations are based in the UK and its North American subsidiary, Frontier Developments Inc, in the US.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The basis of preparation and going concern 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 IFRSs.

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.

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. ACCOUNTING POLICIES

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 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.

STANDARDS AND INTERPRETATIONS NOT YET APPLIED

- 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)
- Disclosure Initiative Amendments to IAS 27 "Statement of Cash Flows" (effective 1 January 2017)
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (effective 1 January 2017)
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Considerations" (issued on 8 December 2016) (effective 1 January 2018) (not yet endorsed)
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (issued on 20 June 2016) (effective 1 January 2018) (not yet endorsed)

IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS"

IFRS 15 "Revenue from Contracts with Customers" is effective for periods beginning on or after 1 January 2018. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. The Group has reviewed IFRS 15 and there is no impact. The Group's current revenue model already recognises revenue at the point the obligation has been satisfied and no changes are proposed to the current model based on the implementation of IFRS 15.

3. ACCOUNTING POLICIES CONTINUED

IFRS 16 "LEASES"

IFRS 16 "Leases" was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 "Revenue from Contracts with Customers" has also been applied. IFRS 16 is endorsed by the EU. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model and, as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The standard may also require the capitalisation of a lease element of contracts held by the Group which under the existing accounting standard would not be considered a lease.

The Group is currently assessing the impact of the new standard. Work performed includes assessing the accounting impacts of the change and the data required. From work performed to date it is expected implementation of the new standard will have a significant impact on the consolidated results of the Group. On adoption, lease agreements will give rise to both a right-of-use asset and a lease liability for future lease payables. Depreciation of the right-of-use asset will be recognised in the income statement on a straight line basis, with interest recognised on the lease liability which will result in a change to the profile of the net charge taken to the income statement over the life of the lease. These charges will replace the lease costs currently charged to the income statement.

IFRS 9 "FINANCIAL INSTRUMENTS"

The new standard for financial instruments replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

Management are reviewing the impact of the standard and the Group's financial assets and liabilities which will be affected.

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

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 is 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 and moved to deferred income. An estimate of the final element is based on the number of man-months it would take to complete the development and is released from deferred income when the final version is released to the public.

Intangible assets capitalisation

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 2018 are £29,197,270 (2017: £21,870,689).

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 on a straight line basis.

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

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.

Intangible assets
Intangible assets are measured at historical 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
- software (third-party software bought from suppliers for use within the Group's activities).

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 their 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.

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 – 2.5 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.

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

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.

Assets in the course of construction
Assets in the course of construction are stated at cost. Once the asset has been completed the carrying value of the asset is transferred and categorised into leasehold improvements. The asset is depreciated over the remaining life of the lease.

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.

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

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 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).

Employee benefits
All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability within trade and other payables.

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.

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

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

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

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

Equity reserve – This represents the value of the Employee Benefit Trust (EBT) that is offset against distributable reserves and equity-settled share-based employee remuneration until such share options are exercised.

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

Share capital and reserves continued

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

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

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.

Revenue

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, both physical and digital.

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 crowdfunding 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 if a customer buys membership to 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.

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.

Share-based payment transactions

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

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.

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

Income taxes continued

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.

Research and Development tax credits (R&D tax credits) are claimed by the Group for qualifying expenditure. If the R&D tax credit is claimed as a cash benefit this is recognised through the profit and loss in the period it is received.

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.

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.

Transactions denominated in a foreign currency are translated at the rate of exchange ruling at a month-end rate in order to approximate to the 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.

Financial assets and liabilities at FVTPL

Derivative financial instruments are financial assets and liabilities measured at fair value through 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.

4. 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 revenue from self-published franchises and other revenue streams such as royalties and licensing.

The Group does not provide any information on the geographical location of sales as the majority of revenue is through third-party distribution platforms which are responsible for the sales data of consumers.

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

All material revenue is categorised as either self-publishing revenue or other revenue.

In the period ending 31 May 2018 the majority of other revenue relates to royalties received from sales of *RollerCoaster Tycoon 3* (31 May 2017: 'Licensing revenue' £520k).

	12 months to 31 May 2018 £'000	12 months to 31 May 2017 £'000
Self-publishing revenue	**32,644**	36,357
Other revenue	**1,548**	1,006
	34,192	37,363

5. EMPLOYEE REMUNERATION

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

	31 May 2018 £'000	31 May 2017 £'000
Staff remuneration	**13,179**	13,877
Social security costs	**1,399**	1,236
Pension costs	**712**	109
Share-based compensation	**992**	687
	16,282	15,909

Included in the above payroll costs for the year ended 31 May 2018 is £9,654,702 (2017: £8,460,312) capitalised within intangible fixed assets (see note 10). Pension costs relate to contributions to the Company's defined contribution scheme for auto-enrolment.

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

	31 May 2018	31 May 2017
Research and development	**300**	277
Sales, marketing and administrative	**45**	35
	345	312

REMUNERATION OF DIRECTORS

	31 May 2018 £'000	31 May 2017 £'000
Directors' emoluments	**1,483**	720
Non-Executive fees	**40**	38
Non-Executive consultancy fees	**45**	45

EMOLUMENTS OF HIGHEST PAID DIRECTOR

	31 May 2018 £'000	31 May 2017 £'000
Emoluments	**400**	230
Pension	**10**	2

For detailed Directors' remuneration refer to page 28 of the financial statements.

6. OPERATING LEASES

GROUP AND COMPANY

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

	Group and Company year ended	
	31 May 2018 £'000	31 May 2017 £'000
Minimum lease payments due within one year	**1,911**	692
Minimum lease payments due within one to five years	**7,636**	1,344
Minimum lease payments due in greater than five years	**21,475**	—
Total	**31,022**	2,036

Group lease payments recognised as an expense during the year ended 31 May 2018 amounted to £1,133,561 (31 May 2017: £685,000).

The lease payments in the period relate to office equipment, vehicles and lease agreements for office buildings. During February 2018, a 16-year lease was entered into for a new commercial office building and occupation commenced in April 2018. All existing property leases were terminated early in April 2018 as part of the terms of the new lease.

7. PROFIT BEFORE TAX

	31 May 2018 £'000	31 May 2017 £'000
This is stated after charging:		
Amortisation of intangible assets	**6,177**	4,623
Depreciation of tangible assets	**390**	241
Research and development costs expensed	**2,450**	3,101
Foreign exchange losses	**137**	1,671
Auditor remuneration:		
Audit of the parent and Group	**52**	40
Audit related assurance services	**9**	9
Other assurance services	**1**	1
Operating leases	**1,134**	685

8. TAXATION ON ORDINARY ACTIVITIES

ANALYSIS OF THE (CREDIT)/CHARGE IN THE PERIOD

	31 May 2018 £'000	31 May 2017 £'000
UK corporation tax based on the results for the year	**34**	660
Adjustments for prior periods	**(747)**	87
Video Games Tax Relief credits (UK)	**–**	(664)
Withholding tax	**–**	19
Tax on profit on ordinary activities	**(713)**	102

FACTORS AFFECTING TAX EXPENSES

The tax assessed on the profit on ordinary activities for the year differs from the effective rate of corporation tax of 19% (2017: 19.83%) as follows:

	31 May 2018 £'000	31 May 2017 £'000
Profit on ordinary activities before taxation	**2,880**	7,813
Tax on profit on ordinary activities at standard rate	**547**	1,549
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	**381**	203
Adjustments to tax charge in respect of previous periods	**(747)**	87
Research and development tax credits	**(235)**	—
Video Games Tax Relief credits (UK)	**–**	(645)
Video Games Tax Relief enhanced deductions	**(608)**	—
Deferred tax – utilisation of tax losses	**–**	(928)
Deferred tax movements	**–**	(39)
Corporation tax deductions for employee share option exercises	**(1,820)**	(125)
Losses to carry forward	**1,769**	—
Total amount of tax	**(713)**	102

8. TAXATION ON ORDINARY ACTIVITIES CONTINUED

FACTORS AFFECTING TAX EXPENSES CONTINUED

The Group benefits from the enhanced tax deductions available from the Video Games Tax Relief (VGTR) scheme as well as enhanced tax deductions for research and development expenditure (where costs are not included in the VGTR regime). For the financial year 2018 the Group expects to be able to process a substantial tax deduction for employee share option gains achieved in the period. As a result of all these factors, as at 31 May 2018 the Group had tax losses which are estimated to be in excess of £10 million in total. The application of these estimated tax losses against future financial flows can be complex because of the nature of the streaming of revenue and costs for the different game franchises between the main trade for tax (i.e. outside the VGTR regime) and each VGTR stream. No deferred tax assets have been recognised for the estimated losses as there is no certainty of when they will be utilised and the estimated corporation tax deductions for employee share option gains has not been processed in this set of accounts. The Group expects to provide additional details on its tax status in the FY19 financial statements.

9. 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.

	31 May 2018	31 May 2017
Profit attributable to shareholders (£'000)	**3,594**	7,711
Weighted average number of shares	**37,519,639**	33,943,972
Basic earnings per share (pence)	**9.6**	22.7

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 the dilutive effect of share options.

	31 May 2018	31 May 2017
Profit attributable to shareholders (£'000)	**3,594**	7,711
Diluted weighted average number of shares	**39,485,283**	34,446,017
Diluted earnings per share (pence)	**9.1**	22.4

The reconciliation of the average number of Ordinary Shares used for basic and diluted earnings per share is as follows:

	31 May 2018	31 May 2017
Weighted average number of shares	**37,519,639**	33,943,972
Dilutive effect of share options	**1,965,644**	502,045
Diluted average number of shares	**39,485,283**	34,446,017

10. 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.

	Development tools and licences £'000	Self-published software and licences £'000	Third-party software £'000	Total £'000
Cost				
At 31 May 2016	3,966	21,600	1,102	26,668
Additions	571	9,076	157	9,804
Disposals	—	—	(915)	(915)
At 31 May 2017	4,537	30,676	344	35,557
Additions	930	12,489	84	13,503
Disposals	—	—	—	—
At 31 May 2018	**5,467**	**43,165**	**428**	**49,060**
Amortisation and impairment				
At 31 May 2016	2,605	6,374	999	9,978
Amortisation charges	874	3,655	94	4,623
Disposals	—	—	(915)	(915)
At 31 May 2017	3,479	10,029	178	13,686
Amortisation charges	949	5,101	127	6,177
Disposals	—	—	—	—
At 31 May 2018	**4,428**	**15,130**	**305**	**19,863**
Net book value at 31 May 2018	**1,039**	**28,035**	**123**	**29,197**
Net book value at 31 May 2017	1,058	20,647	166	21,871

The majority of amortisation charges for intangible assets are expensed within research and development expenses. A small proportion of amortisation charges for third-party software is charged to administrative expenses.

In 2014 rights including the *Elite* brand were acquired from Professional Practice Automation LLP. These acquired rights are included within self-published software. The net book value of the acquired rights at 31 May 2018 was £2.8 million (2017: £3.5 million).

11. PROPERTY, PLANT AND EQUIPMENT

GROUP AND COMPANY

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 31 May 2016	235	1,576	4	—	1,815
Additions	1	238	—	394	633
Disposals	(121)	(916)	(4)	—	(1,041)
At 31 May 2017	115	898	—	394	1,407
Additions	—	317	—	4,343	4,660
Transfer	459	307	3,971	(4,737)	—
At 31 May 2018	**574**	**1,522**	**3,971**	**—**	**6,067**
Depreciation					
At 31 May 2016	213	1,294	4	—	1,511
Charge for the period	14	227	—	—	241
Disposals	(121)	(916)	(4)	—	(1,041)
At 31 May 2017	106	605	—	—	711
Charge for the period	19	309	62	—	390
Transfer	—	—	—	—	—
At 31 May 2018	**125**	**914**	**62**	**—**	**1,101**
Net book value at 31 May 2018	**449**	**608**	**3,909**	**—**	**4,966**
Net book value at 31 May 2017	9	293	—	394	696

Assets in the course of construction relates to the fit-out of a new leased building in the Science Park in Cambridge which was occupied from April 2018.

Depreciation charges were apportioned to the income statement as follows:

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Research and development expenses	**260**	239
Administration expenses	**130**	2
Total	**390**	241

12. TRADE AND OTHER RECEIVABLES

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Trade and other receivables, gross	**4,130**	1,736	**4,137**	1,725
Intercompany receivable	**—**	—	**158**	91
Financial assets	**4,130**	1,736	**4,295**	1,816
Prepayments and other debtors	**2,148**	921	**2,126**	899
Social security and other taxes	**455**	284	**456**	284
Non-financial assets	**2,603**	1,205	**2,582**	1,183
Total trade and other receivables	**6,733**	2,941	**6,877**	2,999

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. The majority of receivables are balances with third-party distributors.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included the following balances by currency:

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Cash at bank and in hand				
Great British Pounds (GBP)	**20,916**	6,991	**20,916**	6,991
US Dollars (USD)	**2,447**	5,372	**2,247**	5,207
Euros (EUR)	**755**	116	**755**	116
Canadian Dollars (CAD)	**6**	100	**6**	100
Financial assets	**24,124**	12,579	**23,924**	12,414

14. TRADE AND OTHER PAYABLES

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Trade payables	**1,492**	1,003	**1,458**	1,003
Intercompany payable	**—**	—	**44**	9
Accruals	**3,541**	3,426	**3,531**	3,419
Financial liabilities	**5,033**	4,429	**5,033**	4,431
Derivative financial instruments	**373**	70	**373**	70
Other taxation and social security	**514**	395	**514**	395
Total trade and other payables	**5,920**	4,894	**5,920**	4,896

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.

15. DEFERRED INCOME

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

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Deferred income – current	**3,634**	459	**3,589**	390
Deferred income – non-current	**690**	927	**555**	740
Total deferred income	**4,324**	1,386	**4,144**	1,130

Non-current deferred income is due to be recognised over the expected remaining life of the franchise period. At 31 May 2018 the expected remaining life of the franchise is considered to be three and a half years.

The deferred revenue is in respect of *Elite Dangerous* lifetime expansion passes and digital pre-order sales of *Jurassic World Evolution*. *Jurassic World Evolution* launched on 12 June 2018, at which time all deferred revenue was released.

The carrying values of deferred income are considered to be a reasonable approximation of fair value.

16. CURRENT TAX LIABILITIES

Current tax liabilities in the statement of financial position were as follows:

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Current tax liability	**—**	747	**—**	747

17. PROVISIONS

PROVISIONS FOR DILAPIDATIONS

	Group and Company year ended	
	31 May 2018 £'000	31 May 2017 £'000
Opening balance	**275**	273
Provision utilised	**—**	—
Provision released	**(264)**	—
Provided for in the period	**—**	2
At period end	**11**	275

The dilapidation provision relates to the rental contracts for the previously leased office buildings. The provision is based on the estimated costs of work to be performed to bring the buildings back to a state of repair and condition similar to the start of the lease. The reduced dilapidations cost was negotiated as part of the new lease agreements entered into during February 2018.

18. DEFERRED TAX ASSETS AND LIABILITIES

	Group and Company year ended	
	31 May 2018 £'000	31 May 2017 £'000
Accelerated capital allowances	**109**	310
Short-term temporary differences (restricted)	**(109)**	(310)
Total liability	**—**	—
Balance brought forward	**—**	—
Movement in year	**—**	—
Balance carried forward liability	**—**	—

No deferred tax assets or liabilities have been recognised in the statement of financial position for the Group and Company as at 31 May 2018 or 31 May 2017 as there is uncertainty as to when the tax losses are anticipated to crystallise.

UK tax losses available at 31 May 2018 are provisionally estimated to be in excess of £10 million (31 May 2017: £1.9 million).

19. SHARE CAPITAL

GROUP AND COMPANY

Balances and movement in share capital, being Ordinary Shares of 0.5 p each.

	Number	Nominal value £
At 31 May 2016	34,096,781	170,484
Shares issued on option exercises and warrants	133,748	669
As at 31 May 2017	34,230,529	171,153
Shares issued on option exercises and warrants	985,517	4,928
Tencent investment	3,386,252	16,931
As at 31 May 2018	**38,602,298**	**193,012**

From 1 June 2017 to 31 May 2018 4,371,769 Ordinary Shares of 0.5p were allotted as fully paid at an average premium of 447p, being the issue of shares to Tencent following the strategic investment and the exercise of share options by employees. The average market value was 737.7p on the days of allotment.

20. 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 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Financial assets				
Trade and other receivables	**4,130**	1,736	**4,295**	1,816
Cash and cash equivalents	**24,124**	12,579	**23,924**	12,414
Total	**28,254**	14,315	**28,219**	14,230

DERIVATIVE FINANCIAL INSTRUMENTS

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

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Derivative financial liabilities				
Forward foreign exchange contracts – held for trading	**(373)**	(70)	**(373)**	(70)

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.

The Group's foreign currency forward contracts have been fair valued using observable forward exchange rates corresponding to the maturity of the contract. The observable forward exchange rates are provided by a third party. They are defined as level 2 within the fair value hierarchy. There were no transfers between levels in 2018 or 2017.

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Financial liabilities				
Trade and other payables	**5,033**	4,429	**5,033**	**4,431**
Total	**5,033**	4,429	**5,033**	**4,431**

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company holds a £6 investment in Frontier Developments Inc., a company registered in the US. This represents 100% of the Ordinary Share capital of the company, which is engaged in publisher support services for the Group.

22. SHARE OPTIONS

The Group has a number of share schemes whereby options may be granted to employees (including Directors) to subscribe for Ordinary Shares in the Group.

The Group operates two EMI schemes (pre-July 2013), a HMRC-approved Company Share Option Plan (from January 2014), two unapproved schemes (one pre-July 2013 and one post-January 2014), a HMRC-approved Sharesave scheme (October 2017 and May 2018) and a Long Term Incentive Plan (November 2017, January 2018 and May 2018). The share option grants for employees typically vest after 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 to the main Company Share Option Plan, except for one tranche issued on 15 September 2014 that had a shorter vesting period of one year. The Long Term Incentive Plan has a vesting period of three years and has performance conditions attached to the options.

Date of grant	Scheme or warrant type	Period when exercisable	Price in pence	**2018 Number**	2017 Number
30 July 2012	2013 EMI scheme	2012–2022	89	**130,193**	396,273
15 May 2013	2013 EMI scheme	2014–2023	95	**4,000**	210,000
8 July 2013	Unapproved pre-IPO warrants	2013–2023	95	**65,790**	65,790
15 July 2013	Unapproved IPO warrants	2013–2023	127	**147,638**	147,638
21 March 2014	Company Share Option Plan	2017–2024	224.5	**80,850**	165,100
15 September 2014	Company Share Option Plan	2017–2024	257.5	**156,380**	266,300
15 September 2014	Unapproved options	2017–2024	257.5	**213,100**	588,500
15 September 2014	Unapproved options	2015–2024	257.5	**288,350**	288,350
10 March 2015	Company Share Option Plan	2018–2025	230	**97,230**	163,100
10 March 2015	Unapproved options	2018–2025	230	**30,200**	33,200
21 September 2015	Company Share Option Plan	2018–2025	193.5	**124,000**	128,800
21 September 2015	Unapproved options	2018–2025	193.5	**39,400**	39,400
8 September 2016	Company Share Option Plan	2019–2026	174	**160,000**	164,000
8 September 2016	Unapproved options	2019–2026	174	**176,000**	176,000
9 February 2017	Company Share Option Plan	2020–2027	278	**89,000**	95,000
9 February 2017	Unapproved options	2020–2027	278	**35,000**	35,000
31 May 2017	Company Share Option Plan	2020–2027	406	**7,389**	7,389
31 May 2017	Unapproved options	2020–2027	406	**22,167**	22,167
31 May 2017	Unapproved options	2020–2027	250	**300,000**	300,000
01 November 2017	Sharesave	2020–2027	952	**84,719**	–
10 November 2017	Company Share Option Plan	2020–2027	1,094	**108,491**	–
10 November 2017	Long Term Incentive Plan	2020–2027	0.5	**148,408**	–
1 January 2018	Unapproved options	2021–2028	300	**50,000**	–
1 January 2018	Long Term Incentive Plan	2021–2028	0.5	**12,000**	–
8 May 2018	Sharesave	2021–2028	1,044	**24,783**	–
				2,595,088	3,292,007

22. SHARE OPTIONS CONTINUED

Movements in the number of share options and warrants outstanding:

	Group and Company year ended 2018 Number	2017 Number
Opening balance	**3,292,007**	2,981,849
Granted	**433,468**	799,556
Exercised	**(1,108,520)**	(374,898)
Lapsed	**(21,867)**	(114,500)
Closing balance	**2,595,088**	3,292,007
Weighted average exercise price on closing balance	**271.9p**	204.0p

The share-based compensation charge in the profit and loss was £991,724 (31 May 2017: £687,465), of which £24,427 (31 May 2017: £18,458) was in respect of warrants.

Under the rules of the Company Share Option Plan, typically 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.

Under the rules of the Long Term Incentive Plan, typically options are not exercisable until three years from the date of the grant. There are performance conditions attached to the options related to both profit and share price performance during the vesting period. The option holder must also be employed by the Group at time of exercise.

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:

	Sharesave May 2017	LTIP January 2018	Unapproved January 2018	LTIP November 2017	LTIP November 2017	CSOP November 2017	Sharesave November 2017	LTIP May 2017	May 2017
Share price at date of grant (p)	1,044	1,325	1,325	1,094	1,094	1,094	952	406	406
Exercise price (p)	1,044	0.5	300	0.5	0.5	1,094	952	250	406
Expected time to expiry (years)	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Risk-free interest rate (%)	2.2837	2.2837	2.2837	2.2837	2.2837	2.2837	2.2837	2.2837	2.2837
Expected dividend yield on shares (%)	—	—	—	—	—	—	—	—	—
Expected volatility of share price (%)	41.26	40.46	40.46	39.87	39.87	39.87	39.55	31.84	31.84
Fair value of options granted (p)	343.3	1,271.5	1,009.9	612.4	1,049.8	340.4	294.3	184.8	105.0

Share options granted on 31 May 2017 have been included in the fair value calculations above. Due to the date of grant being 31 May 2017, these options were deemed to be granted on 1 June 2017 for accounting purposes and are therefore reflected in these financial statements.

EMPLOYEE BENEFIT TRUST (EBT)

On 5 December 2014, the Company set up an EBT 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 is 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), which administers the Trust. The number of share options exercised by employees in the year and fulfilled as part of these arrangements was 65,600 Ordinary Shares. The EBT purchased 64,600 Ordinary Shares from employees exercising under the cashless options. The EBT had no other assets or liabilities at 31 May 2018 outside of its interest in 104,645 Ordinary Shares, and a voluntary contribution was made to the Trust to repay the outstanding loan balance in full in June 2017 from the £10 million facility provided by the Company.

23. 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.

Connected party	Group and Company year ended Expense paid 31 May 2018 £'000	Creditor balance 31 May 2018 £'000	Expense paid 31 May 2017 £'000	Creditor balance 31 May 2017 £'000
Chris Sawyer – royalties	**268**	**24**	154	—
Marjacq Micro Limited – sales commission	**118**	**26**	59	—

Connected party	Group and Company year ended Change in value of loan expense paid 31 May 2018 £'000	Change in value of loan expense 31 May 2017 £'000
EBT – share options exercised by employees	**148**	50
Voluntary contribution to the Trust to repay outstanding loan balance during year ended 31 May 2018	**(148)**	(1,404)
Movement in year	**—**	(1,354)
Opening loan balance	**—**	1,354
Closing loan balance	**—**	—

KEY MANAGEMENT COMPENSATION

Key management is the Executive and Non-Executive Directors of the Group. The compensation paid to key management for employee services is shown below:

	31 May 2018 £'000	31 May 2017 £'000
Directors' emoluments (including bonuses)	**1,483**	720
Non-Executive fees	**40**	38
Non-Executive consultancy fees	**45**	45

24. 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 20. 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.

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.

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 20).

The Group's management considers all financial assets, not impaired, for each reporting date to be of good credit quality, including those past due. In respect of trade and other receivables, the Group is exposed to significant credit risk for a single counterparty. The Board monitors the credit risk by reference to the date of receipt compared to the contractual terms.

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

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

24. FINANCIAL INSTRUMENT RISKS CONTINUED

FOREIGN CURRENCY RISK

The Group's reporting currency is Sterling. 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).

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 31 May 2018			Consolidated year ended 31 May 2017			**Company year ended 31 May 2018**			Company year ended 31 May 2017		
	CAD £'000	**USD £'000**	**EUR £'000**	CAD £'000	USD £'000	EUR £'000	**CAD £'000**	**USD £'000**	**EUR £'000**	CAD £'000	USD £'000	EUR £'000
Assets	**6**	**2,447**	**755**	100	5,372	116	**6**	**2,247**	**755**	100	5,208	116

In addition, some of the Group's revenue and overhead transactions are completed in a foreign currency.

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 to US Dollars and Euros. An increase in Sterling would lead to a decrease in income and a decrease in equity.

	Consolidated year ended		Company year ended	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	**841**	1,023	**987**	1,218
Equity	**367**	381	**354**	368

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 or seek external funding or the need for secure 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 2018				
Trade and other payables	**4,543**	**490**	**—**	**—**
As at 31 May 2017				
Trade and other payables	4,331	98	—	—

24. FINANCIAL INSTRUMENT RISKS CONTINUED

LIQUIDITY RISK ANALYSIS CONTINUED

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

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
As at 31 May 2018				
Trade and other payables	**4,543**	**490**	**—**	**—**
As at 31 May 2017				
Trade and other payables	4,333	98	—	—

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.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2018
(REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2018 £'000	31 May 2017 £'000
Non-current assets			
Intangible assets	10	**29,197**	21,871
Property, plant and equipment	11	**4,966**	696
		34,163	22,567
Current assets			
Trade and other receivables	12	**6,877**	2,999
Other short-term assets		**466**	456
Cash and cash equivalents	13	**23,924**	12,414
		31,267	15,869
Total assets		**65,430**	38,436
Current liabilities			
Trade and other payables	14	**(5,920)**	(4,896)
Deferred income	15	**(3,589)**	(390)
Current tax liabilities	16	**–**	(747)
Provisions	17	**(11)**	(275)
		(9,520)	(6,308)
Net current assets		**21,747**	9,561
Non-current liabilities			
Deferred income	15	**(555)**	(740)
		(555)	(740)
Total liabilities		**(10,075)**	(7,048)
Net assets		**55,355**	31,388
Equity			
Share capital	19	**193**	171
Share premium account		**34,132**	14,601
Equity reserve		**780**	972
Retained earnings		**20,250**	15,644
Total equity		**55,355**	31,388

The Company has taken the exemption under Section 408 of the Companies Act 2006 not to present a full income statement, but the profit for the Company was £3,570,558 (2017: £8,268,195).

These financial statements were approved by the Directors on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY
5 September 2018

COMPANY STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2018

	31 May 2018 £'000	Restated 31 May 2017 £'000
Cash generated from operations	**10,221**	14,664
Taxes (paid)/received	**(34)**	564
Cashflow from operating activities	**10,187**	15,228
Investing activities		
Purchase of property, plant and equipment	**(4,660)**	(633)
Expenditure on intangible assets	**(13,503)**	(9,804)
Interest received	**81**	19
Cashflow from investing activities	**(18,082)**	(10,418)
Financing activities		
Proceeds from issue of share capital	**19,553**	125
Employee Benefit Trust net investment	**(148)**	(50)
Cashflow from financing activities	**19,405**	75
Net change in cash and cash equivalents from continuing operations	**11,510**	4,885
Cash and cash equivalents at beginning of period	**12,414**	7,531
Exchange differences on cash and cash equivalents	**–**	(2)
Cash and cash equivalents at end of period	**23,924**	12,414

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2018 £'000	Restated 31 May 2017 £'000
Operating profit	**2,777**	8,353
Depreciation and amortisation	**6,567**	4,864
EBITDA	**9,344**	13,217
Movement in unrealised exchange losses/(gains) on forward contracts	**292**	(337)
Share-based payment expenses	**992**	687
Operating cash flow before movements in working capital	**10,628**	13,567
Net changes in working capital:		
Change in inventories	**–**	9
Change in trade and other receivables	**(4,155)**	(394)
Change in trade and other payables	**4,012**	1,480
Change in provisions	**(264)**	2
Cash generated from operations	**10,221**	14,664

Capitalised development costs have been reclassified from operating activities to investing activities.

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2018

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2016	170	14,476	579	7,133	22,358
Profit for the year	—	—	—	8,268	8,268
Total comprehensive income for the year	—	—	—	8,268	8,268
Issue of share capital net of expenses	1	125	—	—	126
Share-based payment charges	—	—	687	—	687
Share-based payment transfer relating to option lapses	—	—	(244)	244	—
EBT share inflows from issues and/or purchases	—	—	(318)	—	(318)
EBT share outflows from option exercises	—	—	268	—	268
Transactions with owners	1	125	393	244	763
At 31 May 2017	171	14,601	972	15,644	31,388
Profit for the year	—	—	—	3,570	3,570
Total comprehensive income for the year	—	—	—	3,570	3,570
Issue of share capital net of expenses	22	19,531	—	—	19,553
Share-based payment charges	—	—	992	—	992
Share-based payment transfer relating to option lapses	—	—	(1,036)	1,036	—
EBT share inflows from issues and/or purchases	—	—	(263)	—	(263)
EBT share outflows from option exercises	—	—	115	—	115
Transactions with owners	22	19,531	(192)	1,036	20,397
At 31 May 2018	**193**	**34,132**	**780**	**20,250**	**55,355**

NOTICE OF ANNUAL GENERAL MEETING

FRONTIER DEVELOPMENTS PLC
(INCORPORATED AND REGISTERED IN ENGLAND AND WALES WITH NO. 02892559)

(THE 'COMPANY')
Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Grant Thornton UK LLP at 101 Cambridge Science Park, Milton Road, Cambridge CB4 0FY on Tuesday 16 October 2018 at 9.15 am (BST) 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 2018 together with the Reports of the Directors and Auditor thereon.

Resolution 2. To re-appoint Alexander Bevis, who retires and offers himself for re-appointment, as a Director.

Resolution 3. To re-appoint David Braben, who retires and offers himself for re-appointment, as a Director.

Resolution 4. To re-appoint Charles Cotton, who retires and offers himself for re-appointment, as a Director.

Resolution 5. To re-appoint David Gammon, who retires and offers himself for re-appointment, as a Director.

Resolution 6. To re-appoint James Mitchell, who retires and offers himself for re-appointment, as a Director.

Resolution 7. To re-appoint David Walsh, who retires and offers himself for re-appointment, as a Director.

Resolution 8. To re-appoint Jonathan Watts, who retires and offers himself for re-appointment, as a Director.

Resolution 9. To re-appoint Grant Thornton UK LLP as the Company's Auditor in accordance with Section 489 of the Companies Act 2006 (the 'Act') to hold office until the conclusion of the next Annual General Meeting at which the accounts of the Company are laid.

Resolution 10. To authorise the directors of the Company (the 'Directors') to determine the Auditors' remuneration for the ensuing year.

Resolution 11. That 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 £64,568.45, 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 2019, 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. This authority is in substitution for all previous authorities conferred upon the Directors pursuant to Section 551 of the Act, but without prejudice to the allotment of any equity securities already made or to be made pursuant to such authorities.

SPECIAL RESOLUTION

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

Resolution 12. That, subject to the passing of resolution 11 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) wholly for cash pursuant to the authority conferred on them pursuant to resolution 11 above as if Section 561(1) of the Act or any pre-emption provisions contained in the Articles did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with an open offer of equity securities by way of rights issue to holders of equity securities in proportion (as nearly as may be practicable) to their respective holdings of such equity securities, but subject 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) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £19,370.53, which represents one-tenth of the nominal value of the Company's issued share capital as at the date of this notice.

Such 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 2019, 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

FRONTIER DEVELOPMENTS PLC
26 Science Park
Milton Road
Cambridge
CB4 0FP

EXPLANATORY NOTES

To the notice of Annual General Meeting

NOTES

To the Notice of Annual General Meeting

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 Frontier Developments plc, at 26 Science Park, Milton Road, Cambridge CB4 0FP. You will need to state clearly on each Form of Proxy the number of shares in relation to which the proxy is appointed. 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 Link Market Services Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 9.15 a.m. on 12 October 2018 (being not more than 48 hours (excluding non-working days) prior to the time fixed for the meeting).

EXPLANATORY NOTES CONTINUED

NOTES CONTINUED

7. Whether or not you propose to attend the Annual General Meeting, please complete, sign and submit a Form of Proxy to our registrars, Link Market Services Limited, 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. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
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 6.30 p.m. (BST) on 12 October 2018 (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 6.30 p.m. (BST) 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:
    - register of Directors' share interests;
    - copies of the Directors' service contracts and letters of appointment (as applicable); and
    - a copy of the Company's articles of association.
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.

FIVE-YEAR SUMMARY

12 MONTHS TO 31 MAY

	31 May 2018	31 May 2017	31 May 2016	31 May 2015	31 May 2014
Revenue	**£34.2m**	£37.4m	£21.4m	£22.8m	£9.5m
Operating profit	**£2.8m**	£7.8m	£1.2m	£1.6m	(£1.7m)
Operating margin (%)	**8%**	21%	6%	7%	(18%)
EBITDA	**£9.4m**	£12.7m	£4.9m	£6.1m	£0.3m
EPS (basic)	**9.6p**	22.7p	4.2p	4.9p	(5.8p)
Operating cash flow	**(£2.8m)**	£3.4m	(£2.7m)	£2.6m	(£3.4m)
Net cash balance	**£24.1m**	£12.6m	£8.6m	£10.5m	£8.6m

ADVISORS AND COMPANY INFORMATION

COMPANY SECRETARY AND CFO
Alexander Bevis

REGISTERED ADDRESS
26 Science Park
Milton Road
Cambridge CB4 0FP

WEBSITE
www.frontier.co.uk

REGISTERED NUMBER
2892559
(Incorporated and registered in England and Wales)

BROKER AND NOMINATED ADVISOR
LIBERUM CAPITAL LIMITED
Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY

JOINT BROKER
FINNCAP LIMITED
60 New Broad Street
London EC2M 1JJ

AUDITOR
GRANT THORNTON UK LLP
101 Cambridge Science Park
Milton Road
Cambridge CB4 0FY

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

REGISTRARS
LINK MARKET SERVICES LIMITED
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Produced by
designportfolio

FRONTIER DEVELOPMENTS PLC
26 Science Park
Milton Road
Cambridge CB4 0FP