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

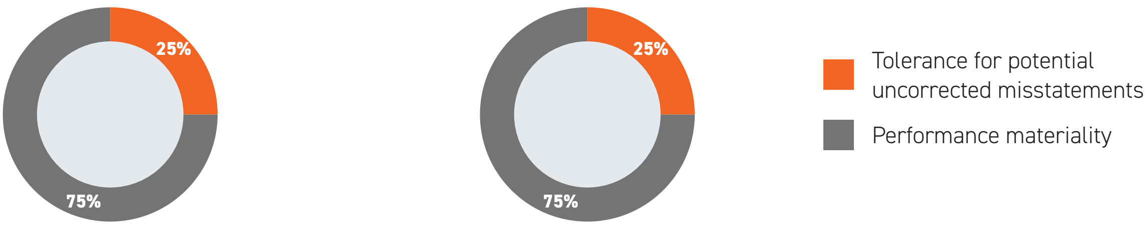
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating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



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.

	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.

	Group and Company year ended			
Connected party	**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	—

	Group and Company year ended	
Connected party	**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.