

24 February 2015

Frontier Developments plc

Half Yearly Results

Frontier Developments plc (AIM: FDEV; "Frontier" or the "Group"), a leading independent developer of video games has published its results for the six months to 30 November 2014.

Delivering on strategy:

- *Elite: Dangerous* full public release 16 December 2014 as planned, shortly after the half year
- c.160,000 *Elite: Dangerous* pre-order / early access customers corresponding to orders of £8.4M up to the end of November
- *Elite: Dangerous* – revenue recognised in December 2014 of £5.8m including deferred income release of £2.3m
- Announced *Coaster Park Tycoon* early in 2015 - second major self-published franchise

Financial highlights

The first half year period ending shortly before the release of *Elite: Dangerous* resulted in significant pre-release game revenues but these can only be recognised in the current 2nd half of our FY resulting in a skew to the 2nd half.

- Cash and cash equivalents increase by £1.3m from May 2014
- Net cash £9.8m at 30 November 2014 (2013: £11.0m)
- Revenue up 44% to £7.3m supported by self publishing pre release sales
- Loss for period £1.9m (2013: £1.6m)
- EBITDA £0.5m (2013: £0.4m loss)
- Adjusted EBITDA of £1.1m (2013: £0.1m)
- Earnings per share of (5.7p) (2013: (5.3p))
- Investment in self published titles and technology up 63%

Operational highlights

- 55% of Group revenue recognised for the period was from self-published titles (up from 3% in the previous period)
- Completed successful Beta phase for *Elite: Dangerous*
- Ongoing promotion drove awareness of *Elite: Dangerous*
- *Tales From Deep Space* launched by Amazon Game Studios for Kindle Fire devices
- *ScreamRide* announced by Microsoft Game Studios for XboxOne and Xbox 360

David Braben, Chief Executive of Frontier Developments, said:

"The successful later stages of development of Elite: Dangerous delivered a significant step in the re-focusing of our business. Good awareness resulted in around 200,000 pre-order early access customers, an increase in cash of £1.3M over the 6 month period and 55% self-published revenues for the period (up from 3%)

"Since the half year was over, we have successfully completed projects with our publishing partners and with the resources that have become available have since announced continued investment in our transition with the start of development of Coaster Park Tycoon, a second major self-published project, in parallel with further development of Elite: Dangerous and a re-structuring of our operations."

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About Frontier Developments plc

Frontier Developments plc, listed on the AIM stock market (AIM: FDEV), is a leading independent game developer founded in 1994 by David Braben, co-author of the seminal 'Elite' game. Based in Cambridge, UK, Frontier uses its proprietary 'Cobra' game development technology to create innovative games across videogame consoles, computers, smartphones and tablets.

The studio released *Zoo Tycoon* as a launch title for Microsoft's Xbox One console in 2013 and *Tales from Deep Space* for Amazon and the self-published *Elite: Dangerous* in 2014. It continues to work on *ScreamRide* for Microsoft in addition to expansion of *Elite: Dangerous*, and announced the start of development of a second major self-published title, *Coaster Park Tycoon*.

www.frontier.co.uk

Interim management report

Strategic overview

Frontier Developments is a leading developer of video games. Frontier has a proven track record of software technology development and innovation spanning several decades of rapid technological change. The Group has leveraged its technology to develop innovative video games across a wide variety of different game genres and platforms, and has established relationships with globally renowned partners.

Frontier's proprietary Cobra software technology supports modern multi-core CPU and GPU architectures of PC, console, tablet and smartphone platforms with a modular, high performance system that is applicable across a wide range of game genres and offers state of the art efficiency, visual fidelity, multiplayer capability and other cloud-based technologies.

Frontier is in a transitional phase evolving into a business which develops and licenses technology to support Frontier's own self-published game titles, games for major external publishers, and other developers.

Elite: Dangerous Frontier's first major self published title was publically released on 16 December 2014 selling directly to customers as a digital download through Frontier's own e-commerce platform.

The key pillars of the Group's strategy are:

- Continue to focus on the development of *Elite: Dangerous*, launch it on new platforms and release enhanced versions of the game.
- Develop a second major self published franchise.
- Invest significant resources in the development of the Group's technology for third party use
- Continue to work with key industry partners.

The Group is pleased to report significant progress in executing the transition of the business in line with its strategy.

Business review

Elite: Dangerous

In the period, Frontier completed a successful Beta phase for *Elite: Dangerous* where increasingly refined development builds of the game were released to early-access customers, which drove a significant increase in customers and pre-order sales.

Frontier demonstrated *Elite: Dangerous* at the E3 industry show in Los Angeles in June, at Gamescom (Köln, August) and Eurogamer Expo (London, September). A successful preview event was held at the Imperial War Museum, Duxford in November, and the game was released on 16 December 2014.

At release, *Elite: Dangerous* had around 200,000 early access and pre-order customers, consequently 55% of Group revenues recognised for the period were from self-published titles (up from 3% in the previous period).

Following the period end a further 100,000 downloads of *Elite: Dangerous* were sold over the Christmas period.

Frontier continued to promote the game in January 2015, with demonstrations at CES (Las Vegas) PAX South (Austin) and other events.

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Elite: Dangerous 1.1, which adds significant gameplay opportunities for players working together via Community Goals and features German, French and Russian localisation, was released on 10 February 2015 as a free update to all customers.

Frontier also announced *Elite: Dangerous* 1.2, a second free expansion which further enhances multiplayer aspects of the game, would be released in March 2015 and that an early-access Beta program for the Apple Mac version of *Elite: Dangerous* will start in March 2015.

Further Cobra technology developments

Frontier continued to enhance its Cobra technology to support the development of *Elite: Dangerous* and its other games, with the main focus being on deploying Frontier's innovative multi-player networking client / server technology in a real-world, high user number environment.

Over the course of its life to date, Frontier's distribution of *Elite: Dangerous* from its own website to customers having Frontier accounts has allowed the company to retain almost 100% of revenue, which would otherwise have been reduced to around 70% using third party distribution. Frontier continues to review additional distribution opportunities for *Elite: Dangerous* to drive incremental sales.

Key industry partnerships

In the period, Frontier announced its development of *Tales from Deep Space* with Amazon Game Studios. This game was launched in October 2014 as an exclusive for Amazon Kindle Fire devices.

Development of the *ScreamRide* Xbox One and Xbox 360 title for Microsoft continued, with the game being announced at the Gamescom consumer show (Köln, August) and demonstrated at the Eurogamer Expo (London, September). A release date of 6 March 2015 was subsequently confirmed.

Coaster Park Tycoon

As the *Tales from Deep Space* and *ScreamRide* projects were completed, the Group was able to further invest its resources in its transition.

On 26 January 2015, following the period end, Frontier announced the start of development of a new self-published game called *Coaster Park Tycoon*.

This will run as a second franchise alongside continued development of the *Elite: Dangerous* franchise.

Frontier became the acknowledged leading developer of Tycoon games for its work on the RollerCoaster Tycoon franchise, particularly its development of 2004's c.10M unit-selling PC game *RollerCoaster Tycoon 3* which is still considered the benchmark of the Tycoon genre, more than ten years after its release.

Coaster Park Tycoon, scheduled for 2016 release on PC, is intended to raise that benchmark for 'Tycoon' gameplay even further by combining accessible creative features with a sophisticated simulation.

Current Trading and Outlook

In the year ended 31 May 2015 the Group will continue to focus on promotion of and development of additional platforms for and versions of *Elite: Dangerous*, and continue to invest significant resources in the development of its technology. The Group will also start the development of a second major franchise, as well as continuing to work with key industry partners.

With its business emphasis on two major self-published franchises, *Elite: Dangerous* and *Coaster Park Tycoon*, after the period end in January 2015 Frontier re-focussed its development activities in Cambridge where the expertise in these franchises lies. Development roles were moved from Halifax, Nova Scotia to Cambridge, and the overall staffing mix changed to match the needs of these two projects. 15 content creation roles were made redundant in Cambridge (from 281 total headcount), while Frontier continues to recruit in areas such as game and technology programming, server and web front end development.

As stated in the January trading update, the Board expects a doubling of reported revenue to approximately £19m for the full financial year.

Interim management report

Group Financial Performance

The Group, using the investment secured at the time of its IPO in 2013 has delivered its first major strategic step of its transition with the public release of *Elite: Dangerous* in December 2014.

The Board considers that the most appropriate way of illustrating the performance of Frontier through this transition phase toward becoming a full-fledged publisher of computer games, supported by proprietary technology, is through a statement of cash flows. The consolidated statement of cash flows is the first primary statement displayed in the financial statements.

Looking at the financial performance in the first six months of the financial year, to 30 November 2014, cash and cash equivalents increased by £1.3m (30 November 2013: £4.0m). With the focus on investing our own technology and IP, the cash flow attributed to the pre orders and sales of *Elite: Dangerous* was £5.7m (2013: £0.1m), development, marketing and direct support costs incurred were £5.0m (2013: £1.1m).

Revenues increased 44% compared with prior year as 'early access' versions of *Elite: Dangerous* were delivered. Revenue recognition of 'early access' versions of the game and some £2.0m of deferred revenue in November associated with fulfilment of pledges for early stage backers was offset by pre release amortisation of the project and a marketing push prior to full release in December, as a result the Group incurred an operating loss of £1.9m (2013: £1.6m). EBITDA improved to £0.5m in comparison with a loss in the equivalent period last year of £0.4m. Deferred income at the end of November 2014 was £3.3m (2013: £1.6m).

Cash and Cashflow

The Group generated £3.8m from continuing operations and cash equivalents, invested £2.7m and raised from financing activities £0.2m net resulting in a net increase in cash of £1.3m to £10.0m at the period end. Interest free loan balances at fair value were £0.2m resulting in reported net cash of £9.8m (2013: £11.0m).

Revenue

Frontier recorded a 44% increase in revenue in the six months to November 2014 to £7.3m. The beta and gamma test versions of *Elite: Dangerous* were available to customers in the period with the full public release being in December. The gamma version fulfilled the digital content pledges leaving product pre-orders to be recognised as revenue in December. Merchandise sales of £0.1m (2013: £nil) have been recognised under self published revenues.

In the interim period we released *Tales from Deep Space* with Amazon, and continued to develop *Screamride* with Microsoft due for release in March 2015. Post balance sheet, another contract was cancelled by the Customer, however revenue recognised was similar to the initial contract value. Royalty income continued to accrue with Atari Interactive Inc. (Atari), the distributor of *RollerCoasterTycoon 3* and on *Kinect Disneyland Adventures* via Microsoft. In the prior year deferred royalties from Atari interactive were recognised whilst they emerged from Chapter 11.

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Revenue mix £'000			
For the six months ended November	2014	2013	%
Self published	3,978	144	2,663%
Publishing	3,070	4,611	(33%)
Royalties & Other income	227	292	(23%)
Total Revenue	7,275	5,047	44%

We no longer report on underlying revenue, as the impact of sub contract work passed through at nil margin is not considered material to the business.

Intangible Assets and Research & Development Expenditure

Investment in the Group's own IP capitalised in the period was up 54% in value at £2.5m (2013: £1.6m) reflecting Frontier's commitment to a strategic software development programme in respect of Cobra technology and self published titles.

Frontier expensed £0.5m (2013: £0.1m) of costs within software development projects.

Gross Margin and Contribution

The overall gross margin rose to 7% from 5%. The Group has a number of revenue and cost streams where it is able to identify contribution towards gross profit:

Contribution for the six months ending November:	2014			2013		
£'000	Revenue	Cost	Contribution	Revenue	Cost	Contribution
Self Published	3,978	(2,903)	1,075	144	(651)	(507)
Publisher	3,070	(1,981)	1,089	4,611	(2,979)	1,632
Royalty, Technology & Project support	227	(1,878)	(1,651)	292	(1,168)	(876)
Total	7,275	(6,762)	513	5,047	(4,798)	249

Self Published

Revenue: The video game, *Elite: Dangerous* represents 98% of revenue recognised in the half year (2013: 55%). Of this revenue £3.8m (2013: £0.1m) was for digital content and £0.1m (2013: £nil) associated merchandise and ancillary sales. Deferred revenue of £3.3m (2013: £1.6m) was carried forward, 70% of which is to be released at launch, and the remainder matched with physical product sales in 2015, and future content releases (expansion passes).

Costs: Staff costs incurred were £1.8m (2013: £1.1m), overhead incurred including merchandise sub contract, marketing, payment system commissions and server costs were £1.4m (2013: £0.1m). Costs capitalised into intangible assets were £2.0m (2013: £1.1m) and pre release amortisation charged

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was £1.7m (2013: £0.1m for pre release amortisation and £0.5m of amortisation and impairment the Coaster Crazy franchise).

Amortisation for the acquired royalty streams of £5.1m and internal development costs of £5.5m have been combined and are to be amortised over a period up to four years on a straight line basis, as adjusted for assessments of useful economic life. Incremental development costs for releases on additional platforms, will be amortised similarly upon release.

Publisher

Publisher revenues are mainly derived from completion of milestones, £2.6m (2013: £3.3m) was recognised in the half year. The remaining revenue stems from sub contract recharges (which are passed on at nil margin) of £0.1m (2013: £0.3m), and additional staff time of £0.4m (2013: £0.5m) and work in progress adjustments of £nil (2013: £0.5m). At the half year work in progress balances were £0.2m (2013: £0.1m), and the remaining contracted milestone work is £0.8m, of which £0.4m relates to a project cancellation fee, cancelled at the Customer's request post period end.

Publisher cost of sales includes staff costs of £1.9m (2013: £2.7m), and sub contract costs of £0.1m (2013 £0.3m).

Royalties, Technology & Project support

The group receives royalties from Atari for RCT3 on a quarterly basis and Microsoft for Kinect Disneyland Adventures on a monthly basis. Revenue is accrued upon receipt of royalty reports. Technology costs are represented by the associated costs of our COBRA technology. Project support includes the functions of senior management (including executive Directors), marketing and customer support.

In the six month period to November 2014 these were: Staff costs of £1.1m (2013: £0.8m) and Overhead of £0.6m (2013: £0.4m). Costs of £0.4m (2013: £0.4m) were capitalised and amortisation charged represented £0.6m (2013: £0.4m).

Profitability and Adjusted EBITDA

During the transition phase of the business the Board monitors performance on an adjusted EBITDA basis. The adjusting items were primarily Share Based Compensation and funding costs associated with the IPO in the prior year.

There was an operating loss of £1.9m (2013: £1.6m). EBITDA turned positive to £0.5m (2013: negative (£0.4m)).

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Adjusted EBITDA was £1.1m against £0.04m, the reconciliation is as follows:

For the six months ended November	2014	2013	%
	£'000	£'000	
Operating result before interest and tax	(1,899)	(1,557)	(22%)
Depreciation	138	104	
Amortisation and impairment	2,274	1,099	
EBITDA	513	(354)	242%
Share based compensation	305	178	
Funding costs	-	195	
Fair Value adjustments	255	-	
Loss on disposal of assets and investments	2	-	
Dilapidations provision	18	18	
Subsidiary set up fees	13	-	
EBITDA adjusted	1,106	37	2,862%

Earnings per Share and Dividend

The basic Earnings per share was (5.7) pence per share (2013: (5.3) pence) based on a weighted average number of shares of 33.5m (2013: 29.7m).

The adjusted earnings per share marginally dropped to (3.9) from (3.0) pence per share on an undiluted basis.

The Directors are not recommending that the company pays a dividend (2013: £nil).

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Share issues

Employees converted 194,900 share options into ordinary shares during the period to November 2014 the exercise proceeds were £0.2m. The Group granted 1.3m share options under the Company Share Option Plan and an Unapproved share plan in the period at a fair value of £2.1m.

Key Performance Indicators

In addition to the Revenue and adjusted EBITDA measures mentioned previously as a key indicator of growth and profitability, the Group is looking to invest in its own content to produce a balanced spread of income streams:

% of Revenue by Segment for the six months ending November	2014	2013	2012
Self published	55%	3%	4%
Publishing	42%	91%	93%
Royalties & Other income	3%	6%	3%
Total	100%	100%	100%

The proportion of the Group's staff working on self published and technology projects rose to 51% from 34%. The Group is investing in its own Technology and content as follows:

Man Months 6 months ending November	2014	2013	%
Self Published	695	373	86%
Technology	124	128	(3%)
Total	819	501	63%

Risk and Uncertainties

The Board continuously monitors and assesses the key risks of the business. The key risks that could affect the Group's financial performance and their associated mitigating factors, have not significantly changed from those set out on pages 12 and 13 of the Group's Annual Report for 2014, a copy of which is available from the Frontier Developments website:

http://www.frontier.co.uk/docs/files/Annual_report_and_accounts_2014-Frontier_Developments_plc.pdf.

Consolidated Statement of Cashflows

	Unaudited 6 months ended		Audited 12 months to
	Nov 2014	Nov 2013	May 2014
	£'000	£'000	£'000
Operating activities			
(Loss) after tax	(1,892)	(1,569)	(1,754)
Adjustments	2,667	1,287	2,446
Net changes in working capital	2,976	454	(413)
Taxes received/(paid)	42	(47)	(1)
Cash flow from operating activities	3,793	125	278
Investing Activities			
Purchase of property, plant and equipment	(172)	(158)	(254)
Expenditure on intangible assets	(2,527)	(1,738)	(4,182)
Proceeds from disposal of other long-term financial assets	36	21	21
Interest received	7	9	63
Cash flow from investing activities	(2,656)	(1,866)	(4,352)
Financing activities			
Proceeds from convertible loan notes	-	1,570	1,580
Proceeds from interest free loan	-	-	175
Interest paid	-	(22)	-
Proceeds from issue of share capital	158	4,233	4,145
Cash flow from financing activities	158	5,781	5,900
Net change in cash and cash equivalents from continuing operations	1,295	4,040	1,826
Cash and cash equivalents at beginning of period	8,612	7,155	7,155
Exchange differences on cash and cash equivalents	58	(150)	(369)
Cash and cash equivalents at end of period	9,965	11,045	8,612

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

Consolidated Income Statement

	Notes	Unaudited 6 months ended		Audited 12 months to
		Nov 2014 £'000	Nov 2013 £'000	May 2014 £'000
Revenue	7	7,275	5,047	9,541
Cost of sales		(6,762)	(4,798)	(7,914)
Gross profit		513	249	1,627
Administrative expenses		(2,412)	(1,806)	(3,332)
Operating (loss)		(1,899)	(1,557)	(1,705)
Finance expense		-	(21)	-
Finance income		7	9	63
(Loss) before tax		(1,892)	(1,569)	(1,642)
Income tax		-	-	(112)
(Loss) for the period		(1,892)	(1,569)	(1,754)

All the activities of the Group are classified as continuing.

Earnings per share	8			
Basic earnings per share		(5.7p)	(5.3p)	(5.8p)
Diluted earnings per share		(5.7p)	(5.3p)	(5.8p)

Statement of Comprehensive Income

	Unaudited 6 months ended		Audited 12 months to
	Nov 2014 £'000	Nov 2013 £'000	May 2014 £'000
(Loss) for the period	(1,892)	(1,569)	(1,754)
Items that will be reclassified to the profit and loss			
Exchange differences on translation of foreign operations	8	2	(33)
Total comprehensive income for the period attributable to the owners of the Group	(1,884)	(1,567)	(1,787)

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

Consolidated Statement of Financial Position

	Notes	Unaudited		Audited
		Nov	Nov	May
		2014	2013	2014
		£'000	£'000	£'000
Non-current assets				
Intangible assets	9	11,215	4,073	10,962
Property, plant and equipment		360	345	328
Total non-current assets		11,575	4,418	11,290
Current assets				
Inventories		29	102	15
Trade and other receivables		2,280	1,313	2,964
Other short-term assets		25	9	106
Cash and cash equivalents		9,965	11,045	8,612
Current assets		12,299	12,469	11,697
Total assets		23,874	16,887	22,987
Equity and liabilities				
Equity				
Share capital	10	168	156	167
Share premium account		13,962	8,483	13,805
Option reserve		971	775	790
Foreign exchange reserve		(22)	5	(30)
Retained earnings		2,392	4,252	4,160
Total equity		17,471	13,671	18,892
Liabilities				
Current				
Trade and other payables		2,748	1,405	1,207
Provisions		241	-	-
Other short-term financial liabilities		-	-	14
Deferred income		3,339	1,563	2,456
		6,328	2,968	3,677
Non-current				
Provisions		-	205	223
Financial liabilities		-	-	121
Deferred tax		75	43	74
		75	248	418
Total liabilities		6,403	3,216	4,095
Total equity and liabilities		23,874	16,887	22,987

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

Consolidated Statement of Changes In Equity

	Share capital	Share premium account	Option reserve	Foreign exchange reserve	Retained earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 May 2013	127	1,847	643	3	5,775	8,395
Increase in equity in relation to options issued	-	-	286	-	-	286
Share based payment transfer	-	-	(139)	-	139	-
Issue of share capital	40	11,958	-	-	-	11,998
Transactions with owners	40	11,958	147	-	139	12,284
Loss for the year	-	-	-	-	(1,754)	(1,754)
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	(33)	-	(33)
Total comprehensive income for the year	-	-	-	(33)	(1,754)	(1,787)
At 31 May 2014	167	13,805	790	(30)	4,160	18,892
At 1 June 2013	127	1,847	643	3	5,775	8,395
Increase in equity in relation to options issued	-	-	178	-	-	178
Share based payment transfer	-	-	(46)	-	46	-
Issue of share capital	29	6,636	-	-	-	6,665
Transactions with owners	29	6,636	132	-	46	6,843
Loss for the period	-	-	-	-	(1,569)	(1,569)
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	2	-	2
Total comprehensive income for the period	-	-	-	2	(1,569)	(1,567)
At 30 Nov 2013 – Unaudited	156	8,483	775	5	4,252	13,671
At 1 June 2014	167	13,805	790	(30)	4,160	18,892
Increase in equity in relation to options issued	-	-	305	-	-	305
Share based payment transfer	-	-	(124)	-	124	-
Issue of share capital	1	157	-	-	-	158
Transactions with owners	1	157	181	-	124	463
Loss for the period	-	-	-	-	(1,892)	(1,892)
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	8	-	8
Total comprehensive income for the period	-	-	-	8	(1,892)	(1,884)
At 30 Nov 2014 – Unaudited	168	13,962	971	(22)	2,392	17,471

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

Notes to the financial statements

1. Financial Information

The financial information set out below of the Group and its subsidiary undertaking for the six months ended 30 November 2014 and 30 November 2013 has been prepared by the Directors of the Group on the basis set out in note 3.

2. Corporate Information

Frontier Developments plc ("the Group") develops non-game applications and video games for the interactive entertainment sector. The Company is a public limited company and is incorporated and domiciled in the United Kingdom. The address of its registered office is 306 Science Park, Milton Road, Cambridge CB4 0WG. The Group's operations are based in the UK and a subsidiary, Frontier Developments Inc, in Canada.

The condensed consolidated interim financial statements were approved by the Board of Directors for issue on

The condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 May 2014 were approved by the Board of Directors on 13 September 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The condensed consolidated interim financial statements have been reviewed, not audited.

3. Basis of Preparation and Statement of Compliance

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the group and are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

Going concern basis

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this financial information. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

4. Accounting Policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are unchanged from those set out in the Group's consolidated financial statements for the year ended 31 May 2014. These policies have been consistently applied to all the periods presented.

The operations of the Group are not subject to significant seasonality.

5. Significant Accounting Estimates and Key Judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. All other significant estimates and judgements remain the same as those included in the financial statements for the year ended May 2014:

a) Intangible assets

The Group invests heavily in research and development. The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done. Development costs of software tools within a project that can be utilised generically are separately identified. Judgements are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis but remains uncertain at the time of recognition as it may be subject to future technical problems and therefore a review for indicators

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Notes to the financial statements (continued)

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 30 November 2014 are £11.2m (November 2013: £4.1m).

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 cash flows.

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

In respect to amortisation, normally self published titles are amortised on completion of the game, however an exception to this occurs when project funding is obtained via innovative crowd-funded platforms, such as Kickstarter. Such funding is generally seen as 'contributing to make the game happen' and requires the company to set up a number of pledge levels which include a donation element. The pledge levels and any pre-orders of a game that include access to a number of 'early versions' of the game, an estimated and prudent cost of sale is applied as amortisation. In the financial period to 30 November 2014 £2.3m was recognised (2013: £nil).

d) Revenue recognition

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

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

Pre orders that include access to 'early versions' of a game are allocated between the estimated value of the 'final released' game, elements for future releases (expansion passes) and access to 'early version' content.

6. Risks and uncertainties

An outline of the key risks and uncertainties of the Group was described in the 2014 financial statements, including strategic, execution and financial risks associated with the Group's transition as it seeks to diversify its business base. Risk is an inherent part of doing business but the strong cash position and interest in the *Elite: Dangerous* offering leads the Directors to believe that the Group is well placed to manage business risks successfully.

7. Segment Information

The Group identifies reportable 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.

In order to understand the transition the business is making, additional analysis is provided in the business review – group financial performance on pages 4 and 5 of the products and services by identifying contributions to gross profit.

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

	Unaudited 6 months ended		Audited year ended
	30/11/14	30/11/13	31/5/14
	£'000	£'000	£'000
United Kingdom (country of domicile)	2,860	1,228	1,807
United States of America	2,461	3,709	7,470
Rest of the World	1,954	110	264
	7,275	5,047	9,541

Frontier Developments Plc

Notes to the financial statements (continued)

At November 2014 £24,250 (2013: £67,086) of non-current assets are based in Canada, with the remainder in the UK. At May 2014 £43,342 of non-current assets were based in Canada, with the remainder in the UK.

EBITDA before material exceptional items is a key performance indicator for the Group as a whole, and is also used by the CEO and is calculated as follows:

	Unaudited 6 months ended		Audited year ended
	30/11/14	30/11/13	31/5/14
	£'000	£'000	£'000
Operating (loss) before interest and tax	(1,899)	(1,557)	(1,705)
Depreciation	138	104	225
Amortisation and impairment	2,274	1,099	1,802
EBITDA	<u>513</u>	<u>(354)</u>	<u>322</u>

8. 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 period. Separate calculations have been performed to profit, taking out the adjusted items as noted below.

	November 2014	November 2013	May 2014
(Loss)/Profit attributable to shareholders (£'000)	(1,892)	(1,569)	(1,754)
Weighted average number of shares	33,468,590	29,726,900	30,479,942
Basic earnings per share (pence)	<u>(5.7)</u>	<u>(5.3)</u>	<u>(5.8)</u>

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 diluted share options. For November 2014 as the effect of options would reduce the loss per share, the diluted loss per share is the same as the basic loss per share.

	November 2014	November 2013	May 2014
(Loss)/profit attributable to shareholders (£'000)	(1,892)	(1,569)	(1,754)
Weighted average number of shares	33,468,590	29,726,900	30,479,942
Diluted Basic earnings per share (pence)	<u>(5.7)</u>	<u>(5.3)</u>	<u>(5.8)</u>

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

Frontier Developments Plc

Notes to the financial statements (continued)

	November 2014	November 2013	May 2014
Adjusted (Loss)/profit attributable to shareholders (£'000)	(1,299)	(902)	(948)
Weighted average number of shares	33,468,590	29,726,900	30,479,942
Adjusted Basic earnings per share (pence)	(3.9)	(3.0)	(3.0)
Weighted average number of shares (diluted)	33,468,590	29,726,900	30,479,942
Adjusted diluted earnings per share (pence)	(3.9)	(3.0)	(3.0)

Adjusted profit	November 2014	November 2013	May 2014
	£'000	£'000	£'000
(Loss) attributable to shareholders	(1,892)	(1,569)	(1,754)
Share based compensation	305	178	286
Funding costs	-	195	217
Impairment of Intangible	-	276	276
Dilapidations provision	18	18	36
Fair value adjustment	255	-	34
U.S Entity set up fees	13	-	-
Investment loss	2	-	(21)
Adjusted (loss)	(1,299)	(902)	(948)

Frontier Developments Plc

Notes to the financial statements (continued)

9. Intangible assets

The Group's Intangible assets comprise capitalised development tools and acquired software licences and self published software games. The carrying amounts for the reporting periods under review can be analysed as follows:

	Development tools & licences £'000	Self published software £'000	Third party software £'000	Total £'000
<i>Cost</i>				
At 31 May 2013	4,950	1,789	809	7,548
Additions	545	1,082	111	1,738
Disposals	-	(16)	-	(16)
Impairment	-	(276)	-	(276)
At 30 Nov 2013 – Unaudited	5,495	2,579	920	8,994
Additions – arising from internal development	669	1,739	36	2,444
Additions – acquired separately	-	5,148	-	5,148
Disposals	(1,637)	-	-	(1,637)
At 31 May 2014	4,527	9,466	956	14,949
Additions	448	2,058	21	2,527
Disposals	-	-	(9)	(9)
At 30 Nov 2014 – Unaudited	4,975	11,524	968	17,467
<i>Amortisation and impairment</i>				
At 31 May 2013	2,779	660	659	4,098
Charge for the period	471	280	72	823
At 30 Nov 2013 – Unaudited	3,250	940	731	4,921
Charge for the period	412	226	65	703
Disposals	(1,637)	-	-	(1,637)
At 31 May 2014	2,025	1,166	796	3,987
Charge for the period	538	1,674	62	2,274
Disposal	-	-	(9)	(9)
At 30 Nov 2014 – Unaudited	2,563	2,840	849	6,252
Net Book Value at 30 Nov 2014 – Unaudited	2,412	8,684	119	11,215
Net Book Value at 31 May 2014	2,502	8,300	160	10,962
Net Book Value at 30 Nov 2013 – Unaudited	2,245	1,639	189	4,073
Net Book Value at 31 May 2013	2,171	1,129	150	3,450

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

In November 2013 *Coaster Crazy* was impaired by £276k. No impairment loss was recognised for 2014.

Frontier Developments Plc

Notes to the financial statements (continued)

10. Equity

10.1 Share Capital

	Unaudited		Audited
	30 November 2014	30 November 2013	31 May 2014
	£'000	£'000	£'000
<u>Called up, allotted and fully paid</u>	£0.005 each	£0.005 each	£0.005 each
Ordinary shares	168	156	167

10.2 Movements in share capital

	Unaudited 6 months ended		Audited year ended
	30 November 2014	30 November 2013	31 May 2014
	'000	'000	'000
Movements in number of Ordinary Shares			
Number of shares at beginning of period	33,384	25,234	25,234
Issued on share option exercises	195	112	338
Issue of shares	-	132	132
Issued on listing to AIM	-	3,169	3,168
Issued on exercise of convertible loan note	-	2,510	2,510
Shares issued as non cash consideration	-	-	2,002
At the end of the period	33,579	31,157	33,384

During the period to 30 November 2014:

194,900 Ordinary shares of 0.5 pence were allotted as fully paid at an average premium of 78.1 pence being the exercise of share options by employees. The average market value was 270.3 pence on the days of exercise.

11. Cautionary statement

Sections of this Interim Financial report contain certain forward-looking statements with respect of the Group's financial condition, results, operations and business. These forward-looking statements involve risk and uncertainties because they relate to events that may or may not occur in the future. There are a number of factors that could cause the actual results of developments to differ materially from those expressed or implied by these forward-looking statements. Nothing in this document should be construed as a profit forecast.