

## Interim management report

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### Strategic highlights

- Frontier completed its transition from being a work-for-hire game developer to being a creator of multiple self-published video game franchises with the successful launch of its second franchise, *Planet Coaster*.
- *Planet Coaster* received a positive reception from gamers and reviewers - by the end of December 2016 over 0.5 million paid units had been sold.
- *Elite Dangerous* continues to perform well - by the end of December 2016 a total of over 2.1 million paid franchise units had been sold.
- The Company has continued to increase its investment in supporting its game franchises, its operational infrastructure and other business activities.
- Work on a third franchise has begun. The Group recently announced a licence agreement for a globally renowned movie franchise from a major Hollywood studio. The Board expects this next franchise to generate revenue during calendar 2018.

### Financial Highlights

- Revenue £18.1m (1H 15/16: £10.9m)
- Net cash £6.7m at 30 November 2016 (1H 15/16: £8.6m)
- Trade receivables £9.6m (up £7.1m from May 2016)
- Profit after tax for period £3.6m (1H 15/16: £0.4m)
- EBITDA £5.8 m (1H 15/16: £2.1m)
- Adjusted Operating Result £2.2m (1H 15/16: (£1.7m))
- Earnings per share of 10.7p (1H 15/16: 1.2p)

Revenue was up 66% and EBITDA up 179% on the equivalent 1H 15/16 numbers, driven by the successful launch on 17 November 2016 of the Group's second franchise, *Planet Coaster*. Definitions of EBITDA and Adjusted Operating Result are located elsewhere in this document.

### Operational Highlights

#### Successful launch of our second franchise, *Planet Coaster*

- Following a successful summer Alpha period, *Planet Coaster* pre-orders were made available in August 2016.
- On the 17 Nov 2016, *Planet Coaster* was released as planned after a short, successful Beta period.
- *Planet Coaster* was well received, holding the global number one position on Steam for over a week, and was one of the Steam Top 40 selling games of 2016 despite being released within six weeks of the year-end.
- In December 2016, the first *Planet Coaster* update was released; a free seasonal 'Winter' update that added significantly to all areas of the game.

#### Continued strengthening of our first franchise, *Elite Dangerous*

- The company continued to both strengthen *Elite Dangerous* and deliver the *Elite Dangerous: Horizons* season of expansions.
- On 3 June 2016 *Elite Dangerous: Horizons* was launched on Xbox One with the release of 'Planetary Landings' and 'The Engineers' expansions, both already available on PC.
- On 25 Oct 2016 the third expansion in the Horizons season, 'The Guardians', was released simultaneously on PC and Xbox One.
- *Elite Dangerous* was one of the Steam Top 100 selling games of 2016.
- On 9 December 2016 the company announced that *Elite Dangerous* and the *Elite Dangerous: Horizons* season of expansions will be released on Sony's PlayStation 4 and Playstation 4 Pro in calendar 1H 2017.
- This launch will mark the debut for the Company's proprietary COBRA game development technology on Playstation 4.

#### Other key developments in the period

- Charles Cotton replaced Jonathan Milner as Non-Executive Director. Charles has a successful track record of successfully scaling organisations listed on both LSE and NASDAQ.

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- The company announced the appointment of Alex Bevis as CFO. Alex has extensive board experience as VP Finance and CFO of high technology growth companies from his work at CSR plc and Xaar plc, and joins Frontier in April 2017.
- Jane Cooke, formerly of Abcam plc, was appointed Director of Organisational Development in December 2016 on a one year contract.
- The Company has secured new leased premises on Cambridge Science Park for 2018 that provides the capacity for future expansion and will maximise efficiency of operations with all staff in one building.

**Outlook**

Revenues in the first half of the year exceeded the Board's expectations. Subsequent sales have been in line and the Board is confident about meeting its expectations for the full year. Looking forward, the Board is excited about the growth opportunities in the years ahead - from both strengthening and growing the Group's existing franchises and launching new franchises.

**Group Financial Performance**

The Group has now completed its transition to a self-publishing business model with multiple franchises in the market. The Alpha and Beta phases for the Group's second franchise were completed successfully and Planet Coaster was launched on 17 November 2016. Elite Dangerous: Horizons was released on Xbox One in June 2016, and the Group continued to deliver the Horizons season of expansions on PC and Xbox One with 'The Guardians' being launched in October. The Group will continue to strengthen and develop the Elite Dangerous and Planet Coaster franchises whilst investing in the development of future franchises.

The goal of business model transition has been achieved and the Group is continuing to invest in the development of future franchises. Consequently, the Board still considers the statement of cashflows to be the most appropriate way of illustrating the Group's financial performance, given the substantial investment in games development, which is capitalised.

Revenue for the period is £18.1m (2015: £10.9m), an increase of 66% compared with the first six months of the previous financial year - in respect of self-published titles the increase was 61%. The increase in self-published revenue is due to the successful launch of Planet Coaster on 17 November 2016 therefore the Group now has revenue streams from two self-published franchises.

Looking at the financial performance in the first six months of the financial year to 30 November 2016, the Group recorded an operating profit of £3.6m (2015: £0.4m). EBITDA increased to £5.8m in comparison with the prior year amount of £2.1m. The adjusted operating result was a profit of £2.2m (2015; loss of £1.7m). This measure is to reflect the investment in development of self-published titles by expensing capitalised development costs and excluding certain non-cash items from expenses on the income statement (shown in the table in the Profitability, EBITDA and Adjusted Operating profit section).

Cash and cash equivalents decreased by £1.9m (30 November 2015: decrease of £2.0m). During the period a significant amount of development staff worked on Planet Coaster which, apart from £1.8m of recognised revenue associated with early-access offerings to customers, only became cash generative in November 2016. A significant proportion of the Planet Coaster sales are via third party distribution and cash from such November sales is not included in the closing balance, being remitted within 30 days after the period end. Trade and other receivables rose by £7.1m to £9.6m in the six months since May 2016.

In addition to Planet Coaster, the Group continued to invest in the development of Elite Dangerous and COBRA technology. Elite Dangerous continued to be cash generative throughout the period, with the launch of Elite Dangerous: Horizons on Xbox One in June 2016 and 'The Guardians' expansion launched on PC and Xbox One in October 2016.

**Cash and Cashflow**

The Group generated £3.6m from continuing operations, invested £5.0m in non-current assets and incurred foreign exchange losses of £0.5m from currency hedges resulting in a net decrease in cash of £1.9m to £6.7m at the period end as Planet Coaster cash from its distribution via third party channels was remitted post-period

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(2015: net cash £8.6m). Trade and other receivables increased by £7.1m due to Planet Coaster revenue being driven through third party platforms where cash is typically received 30 to 60 days after the month end. This increased third party distribution also resulted in an increase in trade and other payables, as revenues from third parties are received net of commissions.

The proportion of non-Sterling sales proceeds rose to 90% (2015: 74%), again reflecting increased sales via third party distribution channels. The Group's current policy is to hedge at least 50% of its forecast net currency exposure on a rolling 12 months basis.

The Elite Dangerous franchise represented 45% of self-published sales, and the Planet Coaster franchise 54%. Self-published revenues represent sales where Frontier is the sole developer and determines the route to market. Royalties and physical merchandise represent income streams for royalties of previous work-for-hire games (including RollerCoaster Tycoon 3) and physical merchandise sales.

Revenue from work-for-hire activities with external publishers has now reduced to zero as planned, reflecting the Group's successful transition to generating substantially all its revenue from self-published titles.

<b>Revenue mix £'000</b>			
<b>For the six months ended November</b>	<b>2016</b>	<b>2015</b>	<b>%</b>
Self-published	17,302	10,740	61%
Royalties & physical merchandise	253	178	42%
Technology platform licence fee	519	-	100%
<b>Total Revenue</b>	<b>18,074</b>	<b>10,918</b>	<b>66%</b>

In the period a publisher partner took up two options under previous work-for-hire contracts to license COBRA to facilitate ports of existing games to new platforms, shown in the table above as 'Other income'. Licensing our COBRA technology to new customers is not a current focus and remains a future strategic opportunity that we will continue to evaluate.

In December 2016 the Company issued a complaint in New York, USA, court against Atari Interactive Inc., related to underpaid ongoing royalties from the RollerCoaster Tycoon 3 game which the Company developed and licensed to Atari to publish in 2004. After attempting to resolve this issue without legal action since April 2016 and having so far been denied the contractual right to audit by Atari, the Company was unfortunately left with no other way to resolve its concerns.

#### Intangible Assets and Research & Development Expenditure

Investment in the Group's own IP capitalised in the period was up 14% at £4.9m (2015: £4.3m). This reflects the continued development in both franchises and COBRA technology. Costs within software development projects of £0.5m (2015: £0.5m) were expensed.

#### Gross Margin and nature of expenses

Gross margin was 74% (2015: 71%). The 3% increase in 2016 is due to the one-off COBRA licence option payment of £0.5m from a publisher partner during the period to 30<sup>th</sup> November 2016 at a gross margin of 100% and a small increase in sales being made through Frontier's distribution channel at a higher margin, including early access products for Planet Coaster that were sold exclusively on the Frontier store.

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Gross margin is aligned to the reporting format mainly used in the sector; cost of sales represents commissions from third party developers, royalties payable on the RollerCoaster Tycoon 3 IP license, merchandise costs and e-commerce payment charges. Cost of goods sold does not include any staff costs.

The Group has provided details of the nature of its £14.4m of expenses (2015: £10.5m) in note 8. Within the analysis commissions and royalties paid increased to £4.6m from £3.1m as a result of an increase in revenue during the period. A substantial proportion of revenue has arisen from sales through third party distributors who typically charge a commission in the region of 30% of net revenue. Employee benefit costs have increased during the period partly due to an increase in headcount (average headcount increased from 268 employees to 305). Sales and Marketing costs decreased to £1.2m from £2.0m, due to a shift in the profile of the Company's attendance at trade and consumer events and a highly focused approach to the initial target audience for Planet Coaster. R&D capitalised increased from £4.3m to £4.9m, reflecting the continued investment in Elite Dangerous and the ongoing development of Planet Coaster prior to launch in November 2016. Administration and other overheads have increased significantly from £1.8m to £3.3m due primarily to actual and fair value currency losses on forward currency hedges. The Group has benefitted from the decrease in value of the British Pound as a significant proportion of revenue is remitted in US Dollars, approximately offsetting the currency losses.

Depreciation and amortisation has increased during the period from £1.6m to £2.1m due to the amortisation of the additional capitalised development costs of the Elite Dangerous franchise and the release of Planet Coaster. The Group's depreciation policy is to amortise capitalised development costs of self-published titles from the release of the game. Management have agreed that, as with Elite Dangerous, assets developed for the first Planet Coaster release will be used across the franchise and therefore depreciated over six years. Amortisation for the acquisition of David Braben's royalty rights to the Elite franchise IP of £5.1m commenced on a straight line basis from December 2014 over eight years.

#### Profitability, EBITDA and Adjusted Operating profit

During the initial transition phase of the Group's business model to self-publishing multiple franchises the Board monitored performance on three levels, operating profit, EBITDA and adjusted operating profit. Although this transition is complete the Board still considers these metrics to be useful performance measure whilst the Group continues to invest in further franchises. The reconciliation from Operating profit through to adjusted operating profit is as follows:

	<b>2016</b>	<b>2015</b>	<b>%</b>
<b>For the six months ended November</b>	<b>£'000</b>	<b>£'000</b>	
Operating result before interest and tax	3,641	430	747%
Depreciation	127	131	(3%)
Amortisation and impairment	1,982	1,501	32%
<b>EBITDA</b>	<b>5,750</b>	<b>2,062</b>	<b>179%</b>
Share based compensation	340	418	(19%)
Fair Value adjustments	932	137	580%
Dilapidations provision	2	11	(82%)
<b>EBITDA adjusted</b>	<b>7,024</b>	<b>2,628</b>	<b>167%</b>
R&D capitalised	(4,864)	(4,305)	(13%)
<b>Adjusted Operating result</b>	<b>2,160</b>	<b>(1,677)</b>	<b>229%</b>

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Earnings per Share and Dividend

The basic Earnings per share was 10.7 pence per share (2015: 1.2 pence) based on a weighted average number of shares of 33.9m (2015: 33.6m). Diluted basic earnings per share was 10.3 pence per share (2015: 1.1pence) based on a weighted average of 35.3m shares (2015: 35.1m).

The fully adjusted earnings per share moved to 6.4 from a loss of (5.0) pence per share on an undiluted basis (note 9).

The Board seeks to strike a balance between the needs of the business in terms of investment and the desire to provide a high level of return to shareholders. Considering the significant investment the Group continues to make in franchise development the Board has decided not to pay a dividend for the period (2015: nil).

Share issues & Employee Benefit Trust

The Group operates an Employee Benefit Trust. During the period no ordinary shares were issued to the Trust in order to meet share options exercised by employees (2015: 300,000 ordinary shares at 80 pence were issued to the Trust). The Employee Benefit Trust had an interest in 218,400 shares at the end of the period. The Group granted 344,000 share options under the Company Share Option Plan and an unapproved share plan in the period at a total expected fair value of £0.3m. The Employee Benefit Trust did not undertake any market purchases during the period.

Other Key Performance Indicators

In addition to the Revenue and profitability measures mentioned previously as a key indicator of growth and profitability, the Group has transitioned to investing in its own self-published content:

% of revenue by segment for the six months ending November	2015	2016
Self-published	98%	96%
Publishing	-	-
Royalties & physical merchandise	2%	1%
Technology platform licence fee	-	3%
Total	100%	100%

Although self-published revenues have increased in value their proportion of total revenue decreased to 96%. This is primarily due to the £0.5m one off COBRA licensing income which accounted for 3% of the total revenue. Royalties from legacy work-for-hire contracts continue to constitute a decreasing proportion of the total revenue. Although such royalties are expected to generally decrease as a proportion of total revenue the Board does expect to continue receiving such royalties in future years.

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 20 and 21 of the Group's Annual Report for 2016, a copy of which is available from the Frontier Developments website:

<http://ar2016.frontier.co.uk/>

## Consolidated Statement of Cash Flows

	Nov 2016 £'000	Nov 2015 £'000	Audited 12 months to May 2016 £'000
<b>Cash flow from operating activities</b> (see below)	3,602	2,661	7,317
<b>Investing activities</b>			
Purchase of property, plant and equipment	(96)	(123)	(233)
Expenditure on intangible assets	(4,967)	(4,407)	(8,965)
Employee benefit trust investment	11	(400)	(563)
Interest received	7	10	37
<b>Cash flow from investing activities</b>	(5,045)	(4,920)	(9,724)
<b>Financing activities</b>			
Proceeds from issue of share capital	20	276	276
<b>Cash flow from financing activities</b>	20	276	276
Net change in cash and cash equivalents from continuing operations	(1,423)	(1,983)	(2,131)
Cash and cash equivalents at beginning of period	8,610	10,478	10,478
Exchange differences on cash and cash equivalents	(440)	148	263
<b>Cash and cash equivalents at end of period</b>	6,747	8,643	8,610

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

**Consolidated Statement of Cash Flows**

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

	Nov 2016 £'000	Nov 2015 £'000	Audited 12 months to May 2016 £'000
<b>Cash generated from operations</b>			
Profit/(loss) after tax	3,636	395	1,432
Depreciation, amortisation and impairment	2,109	1,632	3,638
Fair value movement on currency contracts	932	-	551
Share-based payment expenses	340	418	738
Interest expense	-	-	-
Taxation	13	45	(162)
Foreign exchange	462	(190)	(267)
<b>Operating cash flow before changes in working capital</b>	7,492	2,300	5,930
Net changes in working capital:			
Change in inventories	9	(24)	4
Change in trade and other receivables	(7,140)	(2,289)	603
Change in trade and other payables	3,079	2,670	925
Change in provisions	2	10	13
<b>Cash generated from operations</b>	3,442	2,667	7,475
Finance income	(7)	(10)	(37)
Taxes	167	4	(121)
<b>Cash flow from operating activities</b>	3,602	2,661	7,317

## Consolidated Income Statement

	Notes	30/11/16 £'000	30/11/15 £'000	Audited 12 months to 31/5/16 £'000
<b>Revenue</b>	7	18,074	10,918	21,363
Cost of sales		(4,618)	(3,132)	(5,098)
<b>Gross profit</b>		13,456	7,786	16,265
Other income		-	-	3
Selling and distribution expenses		(1,213)	(2,024)	(3,887)
Administrative expenses		(4,653)	(2,052)	(4,154)
Research and development expenses		(3,949)	(3,280)	(6,989)
<b>Operating Profit</b>		3,641	430	1,238
Finance income		7	10	37
<b>Profit before tax</b>		3,648	440	1,275
Income tax		(12)	(45)	157
<b>Profit for the period</b>		3,636	395	1,432
All the activities of the Group are classified as continuing.				
<b>Earnings per share (pence)</b>	9			
Basic earnings per share		10.7	1.2	4.2
Diluted earnings per share		10.3	1.1	4.0

## Statement of Comprehensive Income

	30/11/16 £'000	30/11/15 £'000	Audited 12 months to 31/5/16 £'000
Profit for the period	3,636	395	1,432
Items that will be reclassified to the profit and loss			
Exchange differences on translation of foreign operations	58	(99)	(4)
Total comprehensive income for the period attributable to the owners of the Group	3,694	296	1,428

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

## Consolidated Statement of Financial Position

	Notes	30 Nov 2016 £'000	30 Nov 2015 £'000	Audited 12 months to 31 May 2016 £'000
<b>Non-current assets</b>				
Intangible assets	10	19,675	14,006	16,690
Property, plant and equipment		275	325	304
<b>Total non-current assets</b>		<b>19,950</b>	<b>14,331</b>	<b>16,994</b>
<b>Current assets</b>				
Inventories		-	37	9
Trade and other receivables		9,584	5,336	2,443
Other short-term assets		154	44	376
Cash and cash equivalents		6,747	8,643	8,610
<b>Current assets</b>		<b>16,485</b>	<b>14,060</b>	<b>11,438</b>
<b>Total assets</b>		<b>36,435</b>	<b>28,391</b>	<b>28,432</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	11	171	170	170
Share premium account		14,496	14,476	14,476
Equity reserve		911	162	579
Foreign exchange reserve		(3)	(99)	(61)
Retained earnings		11,255	6,825	7,600
<b>Total equity</b>		<b>26,830</b>	<b>21,534</b>	<b>22,764</b>
<b>Liabilities</b>				
<b>Current</b>				
Trade and other payables		7,743	3,645	3,073
Other short-term financial liabilities		15	-	89
Deferred income		406	1,379	1,085
		8,164	5,024	4,247
<b>Non-current</b>				
Provisions		275	270	273
Deferred income (non- current)		1,166	1,477	1,148
Deferred tax		-	86	-
		1,441	1,833	1,421
<b>Total liabilities</b>		<b>9,605</b>	<b>6,857</b>	<b>5,668</b>
<b>Total equity and liabilities</b>		<b>36,435</b>	<b>28,391</b>	<b>28,432</b>

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

## Consolidated Statement of Changes In Equity

	Share capital	Share premium account	Equity reserve	Foreign exchange reserve	Retained earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 June 2015</b>	168	13,963	633	(57)	6,180	20,887
Increase in equity in relation to options issued	-	-	738	-	-	738
Own shares held by the EBT	-	-	(804)	-	-	(804)
Share based payment transfer	-	-	12	-	(12)	-
Issue of share capital	2	513	-	-	-	515
<b>Transactions with owners</b>	2	513	(54)	-	(12)	449
Profit for the year	-	-	-	-	1,432	1,432
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	(4)	-	(4)
<b>Total comprehensive income for the period</b>	-	-	-	(4)	-	(4)
<b>At 31 May 2016</b>	<b>170</b>	<b>14,476</b>	<b>579</b>	<b>(61)</b>	<b>7,600</b>	<b>22,764</b>
<b>At 1 June 2015</b>	168	13,963	633	(57)	6,180	20,887
Increase in equity in relation to options issued	-	-	418	-	-	418
Own shares held by the EBT	-	-	(639)	-	-	(639)
Share based payment transfer	-	-	(250)	-	250	-
Issue of share capital	2	513	-	-	-	515
<b>Transactions with owners</b>	2	513	(471)	-	249	294
Profit for the period	-	-	-	-	395	395
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	(42)	-	(42)
<b>Total comprehensive income for the period</b>	-	-	-	(42)	-	(42)
<b>At 30 Nov 2015 – Unaudited</b>	<b>170</b>	<b>14,476</b>	<b>162</b>	<b>(99)</b>	<b>6,825</b>	<b>21,534</b>
<b>At 1 June 2016</b>	170	14,476	579	(61)	7,600	22,764
Increase in equity in relation to options issued	-	-	340	-	-	340
Own shares held by the EBT	-	-	11	-	-	11
Share based payment transfer	-	-	(19)	-	19	-
Issue of share capital	1	20	-	-	-	21
<b>Transactions with owners</b>	1	20	332	-	19	372
Profit for the period	-	-	-	-	3,636	3,636
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	58	-	58
<b>Total comprehensive income for the period</b>	-	-	-	58	3,636	3,694
<b>At 30 Nov 2016 – Unaudited</b>	<b>171</b>	<b>14,496</b>	<b>911</b>	<b>(3)</b>	<b>11,255</b>	<b>26,830</b>

# Frontier Developments Plc

## Notes to the financial statements

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

### 1. Financial Information

The financial information set out below of the Group and its subsidiary undertaking for the six months ended 30 November 2016 and 30 November 2015 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 its North American subsidiary, Frontier Developments Inc., based in the US. Frontier Developments Inc Canada is no longer operational and was liquidated in January 2017.

The condensed consolidated interim financial statements were approved by the Board of Directors for issue on 9 February 2017.

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 2016 were approved by the Board of Directors on 6 September 2016 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.

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. 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. The Group therefore continues to adopt the going concern basis in preparing its financial statements. The Group maintains a revolving credit facility to support its plans, and is debt free.

# Frontier Developments Plc

## Notes to the financial statements (continued)

### 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 2016. These policies have been consistently applied to all the periods presented.

### 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 within notes 7 and 10 below. These significant estimates and judgements remain the same as those included in the financial statements for the year ended May 2016.

### 6. Risks and uncertainties

An outline of the key risks and uncertainties of the Group was described in the 2016 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, successful launch of Planet Coaster and continued 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.

Management information is reported as a single operating segment being the design and production of computer software irrespective of platform or route to market. Resources are managed on the basis of the Group as a whole.

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

	<b>November 2016 £'000</b>	<b>November 2015 £'000</b>	<b>Audited year ended May 2016 £'000</b>
United Kingdom (country of domicile)	2,100	1,555	3,271
United States of America	7,035	4,309	8,787
Rest of the World	8,939	5,054	9,305
	<b>18,074</b>	<b>10,918</b>	<b>21,363</b>

#### Accounting policies

##### Revenue recognition

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

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

# Frontier Developments Plc

## Notes to the financial statements (continued)

Adjusted profit	November 2016 £'000	November 2015 £'000	Audited year ended May 2016 £'000
Operating profit	3,641	430	1,238
Depreciation	127	131	262
Amortisation	1,982	1,501	3,376
<b>EBITDA</b>	<b>5,750</b>	<b>2,062</b>	<b>4,876</b>
Share based compensation	340	418	738
Dilapidations provision	2	11	13
Fair value movement on forward currency contracts	932	137	551
<b>Adjusted EBITDA</b>	<b>7,024</b>	<b>2,628</b>	<b>6,178</b>
R&D Capitalised	(4,864)	(4,305)	(8,857)
Tax credits deducted from administration costs	-	-	(13)
<b>Adjusted profit/(loss)</b>	<b>2,160</b>	<b>(1,677)</b>	<b>(2,692)</b>

### 8. Nature of expenses

The Group's operating costs have been divided into the following categories:

	November 2016 £'000	November 2015 £'000	Audited year ended May 2016 £'000
Commissions, charges and royalties paid	4,618	3,107	5,012
Depreciation and amortisation	2,109	1,632	3,637
Employee benefits	8,073	6,254	12,634
Sales and marketing	1,190	1,974	3,794
Merchandise costs	30	54	145
Administration and other overheads	3,277	1,773	3,764
R&D Capitalised	(4,864)	(4,305)	(8,857)
	<b>14,433</b>	<b>10,489</b>	<b>20,129</b>

### 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 period excluding the shares held by the Employee Benefit Trust. Separate calculations have been performed to a profit taking out the adjusted items included in the note below.

	November 2016	November 2015	Audited year ended May 2016
Profit attributable to shareholders (£'000)	3,636	395	1,432
Weighted average number of shares	33,880,435	33,597,276	33,812,840
Basic earnings per share (pence)	10.7	1.2	4.2

The calculation of the diluted earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the year as adjusted for dilutive share options.

	November 2016	November 2015	Audited year ended May 2016
Profit attributable to shareholders (£'000)	3,636	395	1,432
Weighted average number of shares	35,341,966	35,149,828	35,445,808
Diluted Basic earnings per share (pence)	10.3	1.1	4.0

# Frontier Developments Plc

## Notes to the financial statements (continued)

The calculation of the adjusted earnings per share, based on adjusted operating profit/(loss) as shown in detail in note 7, is as follows:

	November 2016	November 2015	Audited year ended May 2016
Adjusted profit/(loss) (£'000)	2,160	(1,677)	(2,692)
Weighted average number of shares	33,880,435	33,597,276	33,812,840
Adjusted Basic earnings per share (pence)	6.4	(5.0)	(8.0)
Weighted average number of shares (diluted)	35,341,966	35,149,828	35,445,808
Adjusted diluted earnings per share (pence)	6.1	(5.0)	(8.0)

### 10. 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 2015	4,342	13,141	994	18,477
Additions	144	4,161	101	4,406
Disposals	-	-	-	-
At 30 Nov 2015 – Unaudited	4,486	17,302	1,095	22,883
Additions	254	4,298	7	4,559
Disposals	(774)	-	-	(774)
At 31 May 2016	3,966	21,600	1,102	26,668
Additions	271	4,593	103	4,967
Disposals	-	-	-	-
At 30 Nov 2016 – Unaudited	4,237	26,193	1,205	31,635
<i>Amortisation and impairment</i>				
At 31 May 2015	2,252	4,221	903	7,376
Charge for the period	563	886	52	1,501
Disposal	-	-	-	-
At 30 Nov 2015 – Unaudited	2,815	5,107	955	8,877
Charge for the period	564	1,267	44	1,875
Disposals	(774)	-	-	(774)
At 31 May 2016	2,605	6,374	999	9,978
Charge for the period	437	1,507	38	1,982
Disposal	-	-	-	-
At 30 Nov 2016 – Unaudited	3,042	7,881	1,037	11,960
Net Book Value at 30 Nov 2016– Unaudited	1,195	18,312	168	19,675

# Frontier Developments Plc

## Notes to the financial statements (continued)

Net Book Value at 31 May 2016	1,361	15,226	103	16,690
Net Book Value at 30 Nov 2015 – Unaudited	1,671	12,195	140	14,006
Net Book Value at 31 May 2015	2,090	8,920	91	11,101

### Accounting policies

#### 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 based on discounting cash flows from predicted revenue forecasts 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 30 November 2016 are £19.7m (November 2015: £14.0m).

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.

Self-published titles are amortised on completion of the game.

## 11. Equity

### 11.1 Share Capital

	November 2016 £'000	November 2015 £'000	Audited year ended May 2016 £'000
<u>Called up, allotted and fully paid</u>	£0.005 each	£0.005 each	£0.005 each
Ordinary shares	171	170	170

### 11.2 Movements in share capital

Movements in number of Ordinary Shares	November 2016 £'000	November 2015 £'000	Audited year ended May 2016 £'000
Number of shares at beginning of period	34,097	33,580	33,580
Shares issued to Employee Benefit Trust	-	300	300
Shares issued on share option and warrants exercises	16	217	217
At the end of the period	34,113	34,097	34,097

## Frontier Developments Plc

### Notes to the financial statements (continued)

During the period to 30 November 2016:

15,748 Ordinary shares of 0.5 pence were allotted as fully paid at an average premium of 126.5 pence being the exercise of warrants issued to a third party at IPO. The average market value was 127 pence on the days of exercise.

#### **12. 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.