CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2020

	Notes	31 May 2020 £'000	Restated* 31 May 2019 £'000
Revenue	4	**76,089**	89,669
Cost of sales		**(24,532)**	(35,021)
Gross profit		**51,557**	54,648
Research and development expenses		**(16,014)**	(14,891)
Sales and marketing expenses		**(5,747)**	(7,852)
Administrative expenses		**(13,172)**	(12,536)
Operating profit		**16,624**	19,369
Finance income		**(401)**	289
Profit before tax	7	**16,223**	19,658
Income tax	8	**(329)**	(1,668)
Profit for the period attributable to shareholders		**15,894**	17,990

All the activities of the Group are classified as continuing.

	Notes	31 May 2020 p	Restated 31 May 2019 p
Earnings per share	9		
Basic earnings per share		**41.3**	46.9
Diluted earnings per share		**39.4**	44.7

* Restated for a deferred tax adjustment as per note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2020

	31 May 2020 £'000	Restated* 31 May 2019 £'000
Profit for the period	**15,894**	17,990
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(6)**	(4)
Total comprehensive income for the period attributable to the equity holders of the parent	**15,888**	17,986

* Restated for a deferred tax adjustment as per note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2020
(REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2020 £'000	Restated* 31 May 2019 £'000
Non-current assets			
Intangible assets	10	**52,668**	36,450
Property, plant and equipment	11	**5,926**	6,352
Right-of-use asset	12	**22,732**	—
Deferred tax asset	19	**6,175**	3,185
		87,501	45,987
Current assets			
Trade and other receivables	13	**12,284**	5,178
Current tax asset	17	**2,377**	141
Cash and cash equivalents	14	**45,751**	35,332
		60,412	40,651
Total assets		**147,913**	86,638
Current liabilities			
Trade and other payables	15	**(13,669)**	(9,026)
Lease liability		**(1,337)**	—
Deferred income	16	**(1,439)**	(1,036)
Current tax liabilities	17	**—**	(966)
		(16,445)	(11,028)
Net current assets		**43,967**	29,623
Non-current liabilities			
Provisions	18	**(27)**	(13)
Lease liability		**(22,198)**	—
Deferred income	16	**(234)**	(465)
Other payables	15	**(8,237)**	(939)
Deferred tax liabilities	19	**(4,038)**	—
		(34,734)	(1,417)
Total liabilities		**(51,179)**	(12,445)
Net assets		**96,734**	74,193
Equity			
Share capital	20	**195**	194
Share premium account		**34,589**	34,390
Equity reserve		**(925)**	(3,073)
Foreign exchange reserve		**(22)**	(16)
Retained earnings		**62,897**	42,698
Total equity		**96,734**	74,193

* Restated for a deferred tax adjustment as per note 2.

These financial statements were approved by the Directors on 9 September 2020 and signed on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2020

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2018	193	34,132	780	(12)	20,195	55,288
Profit for the year	–	–	–	–	17,990	17,990
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(4)	–	(4)
Total comprehensive income/(expense) for the year	–	–	–	(4)	17,990	17,986
Issue of share capital net of expenses	1	258	–	–	–	259
Share-based payment charges	–	–	1,564	–	–	1,564
Share-based payment transfer relating to option exercises and lapses	–	–	(535)	–	535	–
EBT share inflows from issues and/or purchases	–	–	(5,000)	–	–	(5,000)
EBT share outflows from option exercises	–	–	118	–	–	118
Tax credits on share options taken directly to reserves	–	–	–	–	1,978	1,978
Deferred tax movements posted directly to reserves – restated*	–	–	–	–	2,000	2,000
Transactions with owners	1	258	(3,853)	–	4,513	919
At 31 May 2019 – restated*	194	34,390	(3,073)	(16)	42,698	74,193
Adjustment for adoption of IFRS 16 – lease accounting	–	–	–	–	1,313	1,313
At 1 June 2019 (adjusted)	194	34,390	(3,073)	(16)	44,011	75,506
Profit for the year	–	–	–	–	15,894	15,894
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(6)	–	(6)
Total comprehensive income/(expense) for the year	–	–	–	(6)	15,894	15,888
Issue of share capital net of expenses	1	199	–	–	–	200
Share-based payment charges	–	–	1,947	–	–	1,947
Share-based payment transfer relating to option exercises and lapses	–	–	(510)	–	510	–
EBT share inflows from issues and/or purchases	–	–	–	–	–	–
EBT share outflows from option exercises	–	–	711	–	–	711
Tax credits on share options taken directly to reserves	–	–	–	–	–	–
Deferred tax movements posted directly to reserves	–	–	–	–	2,482	2,482
Transactions with owners	1	199	2,148	–	2,992	5,340
At 31 May 2020	**195**	**34,589**	**(925)**	**(22)**	**62,897**	**96,734**

* Restated for a deferred tax adjustment as per note 2.

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MAY 2020

	31 May 2020 £'000	31 May 2019 £'000
Cash generated from operations	**32,415**	32,312
Taxes received	**—**	480
Cashflow from operating activities	**32,415**	32,792
Investing activities		
Purchase of property, plant and equipment	**(666)**	(2,269)
Expenditure on intangible assets	**(21,044)**	(14,981)
Interest received	**330**	289
Cashflow from investing activities	**(21,380)**	(16,961)
Financing activities		
Proceeds from issue of share capital	**200**	259
Employee Benefit Trust net cash inflow/(outflow)	**711**	(4,882)
Payment of lease liabilities and related interest	**(1,551)**	—
Cashflow from financing activities	**(640)**	(4,623)
Net change in cash and cash equivalents from continuing operations	**10,395**	11,208
Cash and cash equivalents at beginning of period	**35,332**	24,124
Exchange differences on cash and cash equivalents	**24**	—
Cash and cash equivalents at end of period	**45,751**	35,332

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2020 £'000	31 May 2019 £'000
Operating profit	**16,624**	19,369
Depreciation and amortisation	**14,870**	9,600
EBITDA	**31,494**	28,969
Movement in unrealised exchange gains on forward contracts	**(91)**	(340)
Share-based payment expenses	**1,947**	1,564
Operating cashflows before movements in working capital	**33,350**	30,193
Net changes in working capital:		
Change in trade and other receivables	**(7,046)**	1,542
Change in trade and other payables	**6,097**	575
Change in provisions	**14**	2
Cash generated from operations	**32,415**	32,312

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2020

1. CORPORATE INFORMATION
Frontier Developments plc (the 'Group') develops and publishes 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
The basis of preparation and going concern policies applied in the preparation of these financial statements 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, for both the Group and Company, 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.

PRIOR YEAR ADJUSTMENT
During the preparation of the tax accounting for the Group and Company for FY20, an error was identified in relation to the absence of a deferred tax asset on potential future share option exercises.

The Company benefits from corporation tax deductions when employees exercise share options, and under IAS12 a deferred tax asset should be recognised in the statement of financial position for potential future share options exercises, using the market price of the Company's shares as at the relevant financial year end date, in this case 31 May 2019.

This absence of a deferred tax asset in the reported accounts has resulted in the following correcting restatement for FY19:

- a reduction in the income tax charge within the FY19 income statement of £580,000
- a credit directly to retained earnings as at 31 May 2019 of £2,000,000
- an increase in deferred tax assets of £2,580,000 as at 31 May 2019
- an increase in net assets of £2,580,000 as at 31 May 2019

When calculating the theoretical gains from potential future share option exercises, the element of the deferred tax asset which can be credited to the income statement is limited to the sum of the IFRS2 share charges previously recorded in the income statement relating to that particular share option.

Any excess theoretical gain is allocated directly to reserves. In this case, the majority of the asset as at 31 May 2019 has been credited directly to reserves, with a smaller element being posted as a restatement to the income statement for FY19.

The adjustments to the financial statements for FY19 for this restatement are set out below.

Consolidated Income Statement for the 12 months to 31 May 2019 – extracts

£'000	Reported	Adjustment	Restated
Profit before tax	19,658		19,658
Income tax	(2,248)	580	(1,668)
Profit for the period attributable to shareholders	17,410	580	17,990

Earnings per share for the 12 months to 31 May 2019

Pence	Reported	Adjustment	Restated
Basic earnings per share	45.4	1.5	46.9
Diluted earnings per share	43.2	1.5	44.7

Consolidated Statement of Financial Position at at 31 May 2019 – extracts

£'000	Reported	Adjustment	Restated
Deferred tax asset	605	2,580	3,185
Retained earnings	40,118	2,580	42,698

Company Statement of Financial Position at at 31 May 2019 – extracts

£'000	Reported	Adjustment	Restated
Deferred tax asset	605	2,580	3,185
Retained earnings	40,177	2,580	42,757

There is no cashflow implication from these restatements.

2. BASIS OF PREPARATION CONTINUED

GOING CONCERN BASIS

The Group and Company'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 and Company 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 and Company therefore continue to adopt the going concern basis in preparing their financial statements.

ASSESSMENT OF GOING CONCERN DUE TO COVID-19

The Group's day to day working capital requirements are expected to be met through the current cash and cash equivalent resources at the balance sheet date of 31 May 2020 of £45.8 million along with expected cash inflows from current business activities. The Group has forecast that there will be sufficient income for a period of at least 12 months from the date of the financial statements to support the Groups operational activities.

The Annual Plan approved by the Board of Directors, which has been used to assess going concern, incorporates the impacts and considerations to revenue and costs due to Covid-19. The Annual Plan also reflects assessments of current and future market conditions and the impact this may have on cash resources.

The Group has also performed reverse stress testing on the Annual Plan in respect of potential downside scenarios to identify the break point of current cash resources and to identify when current liquidity resources may fall short of requirements. The Group have also identified mitigating actions that could be reasonably taken to enable it to continue it's operations for at least the next 12 months.

The sensitivities included in the reverse stress testing include the following potential scenarios to revenue:

- All third-party distributors cease to continue to operate resulting in a severe reduction of revenue for the Group
- Operations at our largest third-party distributor are disrupted resulting in a significant reduction of revenue for the Group
- Operations at several third-party distributors are disrupted resulting in a significant reduction of revenue for the Group

As expected, all of the scenarios resulted in an accelerated use of current cash resources however, in all scenarios tested the current cash resources were sufficient to support the Group's activities. This is due to a variety of factors:

- The Group currently has significant cash reserves to maintain the current level of operations
- The Group is able to continue all planned development milestones whilst working from home and has successfully deployed all scheduled releases
- The Group has been able to continue with current headcount growth plans and has sustained a high level of recruitment
- The demand for products has increased during the lockdown restrictions and there has been no impact to debtor recoverability
- Should a more extreme downside scenario occur the Group could take further mitigating actions by reducing discretionary spend

Having considered all of the above, including the current strong cash position, no current impact on debtor recoverability and the increased demand for products, the Directors are satisfied that there are sufficient resources to continue operations for a period of at least 12 months from the date of these financial statements. The financial statements for the year ended 31 May 2020 are therefore prepared under the going concern basis.

3. ACCOUNTING POLICIES

The following accounting policies apply to both Group and Company financial statements, unless otherwise indicated.

BASIS OF CONSOLIDATION

Group-only policy

The consolidated financial statements incorporate those of the Group and all entities controlled by it, after eliminating intercompany 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

Group-only policy

Business combinations are accounted for using the acquisition method under 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

- Amendments to References to the Conceptual Framework in IFRS standards (effective 1 January 2020).
- Amendments to IAS 1 and IAS 8 – Definition of Material (effective 1 January 2020).
- Amendments to IFRS 3 – Definition of a Business (effective 1 January 2020).

OTHER STANDARDS

The following new standards, amended standards and interpretations became effective as at 1 January 2019 but did not have a material impact on the Group's financial statements:

- IFRIC INTERPRETATIONS 23 – Uncertainty over Income Tax Treatments.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

3. ACCOUNTING POLICIES CONTINUED
NEW STANDARDS
IFRS 16 "Leases"
Changes in accounting policies – IFRS 16
The Group has applied IFRS 16 "Leases" in the current year, being the year ended 31 May 2020. The initial date of application is 1 June 2019.

IFRS 16 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 a lessee 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.

A lessee recognises a right-of-use asset in the statement of financial position to represent the right to use the underlying asset with a lease liability also recognised to represent the obligation to make lease payments.

Currently the Group has just one material lease that falls within the scope of IFRS 16, being a property lease for its Cambridge Science Park building. The Group does not have any leases whereby they act as the lessor.

The details of the accounting policy are set out below and also include a description of the impact of adoption of this new lease within the financial statements.

Accounting policy for IFRS 16 "Leases"
At the point of inception of a contract the Group will assess if the contract is for, or contains, a lease. For all contracts that the Group is lessee for, a right-of-use asset is recognised alongside a corresponding lease liability. The Group utilises the short-term lease assets (for leases of 12 months or less) and the low value assets exemptions. The Group does not hold any contracts whereby it is the lessor.

The lease liability is initially measured as the present value of all future lease payments that are due, but not paid, at the commencement date. The discount factor used for the calculation of the present value is the Group's incremental borrowing rate.

Lease payments are defined as the following elements:

- fixed payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is then remeasured using the effective interest method. This method increases the lease liability to reflect the interest on the liability and is reduced by the lease payment actually made to result in the carrying amount.

The right-of-use asset is initially measured at cost.

The cost of the asset is defined as the following elements:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives; and
- any initial direct costs incurred by the lessee.

The asset is subsequently measured at cost less accumulated depreciation and any applicable impairment loss.

The depreciation period is the shorter of the lease term or the useful life of the underlying asset. The depreciation period starts at the commencement date of the lease.

The right-of-use asset is presented within the same category as that which the underlying asset would be presented if the asset were owned and not leased. The Group recognises the asset within property, plant and equipment.

TRANSITION
The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information, in respect of those leases the Group previously treated as operating leases. The Group has measured the right-of-use asset as if IFRS 16 was applied at the lease commencement and has discounted the value using the incremental borrowing rate at the date of adoption.

The incremental rate of borrowing for the Group has been set at 3%.

The lease liabilities at 1 June 2019 can be reconciled to the operating lease commitments as at 31 May 2019 as follows:

	£'000
Operating lease commitments at 31 May 2019	**29,123**
Weighted average incremental borrowing rate	3%
Discounted operating lease commitments	24,356
Lease liabilities at 1 June 2019	24,356

3. ACCOUNTING POLICIES CONTINUED

PRACTICAL EXPEDIENTS

The Group has made use of the practical expedient specified within IFRS 16 not to reassess all contracts already in place to determine whether a contract is or contains a lease. Therefore the definition of a lease under IAS 17 will continue to apply to those leases entered into before 1 June 2019.

IMPACTS ON LESSEE ACCOUNTING

Applying IFRS 16 changes the way the Group accounts for leases in the following areas.

Under IFRS 16, all leases (except those covered by an exemption) are recognised as a right-of-use asset and a lease liability in the consolidated statement of financial position.

Rent-free periods are recognised as part of the initial measurement of the right-of-use asset, whereas previously they would have been recognised as a reduction in rental expenses in the income statement.

Right-of-use assets will be subject to impairment tests in accordance with IAS 36 "Impairment of Assets".

The income statement costs are now recorded as depreciation within administrative expenses as depreciation of the right-of-use assets and within net interest as the interest on the lease liabilities. This replaces an expense for rent on a straight line basis which would have been recorded in administrative expenses.

The debit/(credit) effect of the adoption of IFRS 16 as at 1 June 2019 was as follows:

	£'000
Assets	
Right-of-use asset	24,356
Total assets	**24,356**
Liabilities	
Lease liability	(24,356)
Trade and other payables	1,313
Total liabilities	**(23,043)**
Total adjustments on equity	
Retained earnings	**(1,313)**

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

JUDGEMENT

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. Judgements around capitalisation are based on the information available at initial recognition. Economic success of any development is based upon expected future cashflow where this can be measured reliably 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 2020 are £52,668k (2019: £36,450k).

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. Judgement around amortisation periods is needed to ensure the useful economic life of a game is relevant to the expected period of customer demand.

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 projected net earnings.

In respect to amortisation, self-published titles are amortised on completion of the game on a straight line basis.

JUDGEMENT

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 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 for carried forward tax losses has not been recognised as at 31 May 2020 due to uncertainty on the timing of the utilisation of those losses.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

3. ACCOUNTING POLICIES CONTINUED
SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED
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 four categories:

- game technology which includes Frontier's game engine and other technology which supports the development and publication of games;
- game developments which include development of self-published games and titles under Frontier Foundry;
- third-party software (which includes software bought from suppliers for use within the Group's activities); and
- IP licenses which are based on the minimum guarantees payable by Frontier to the IP owner.

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 directly 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. 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. Amortisation charges for intangible assets that relate to game developments, technology and third-party software are expensed in research and development expenses. Amortisation charges for IP licenses are typically charged to cost of sales, which reflects the IP license royalties which our minimum guarantees relate to.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

From time to time the Group enters into agreements with third-party intellectual property (IP) owners to secure IP rights to support the development and publication of certain games or game content. These agreements typically contain a schedule of royalties payable to the IP owner, based on a percentage of sales which are expensed as incurred. The agreements may also include guaranteed minimum amounts payable to the IP owner. It is the Group's policy to record a financial liability for the total of any guaranteed minimum amount when the agreement is executed, and these amounts are typically treated as licence costs and capitalised as intangible assets according to, and subject to, the principles of IAS 38.

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.

Value in use 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

Financial assets 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.

The Group does not hold a reserve for estimated potential credit losses as the credit loss model does not have a material impact.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits available on demand, together with other short-term, highly liquid deposit accounts maturing within three months.

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 and agreements with third-party intellectual property (IP) owners.

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

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 recognised as an amount that reflects the consideration to which an entity expects to be entitled in exchanges for the goods or services.

Revenue includes income from the release of full games and early access versions of self-published games, paid downloadable content, royalties from published games and associated physical merchandise.

Revenue from released self-published games is recognised in accordance with IFRS 15 on download of the game or upon purchase of in-game digital items.

On release of a game, free downloadable content or updates provided to consumers are not considered additional performance obligations as these are not promised to the consumer and are only available at the discretion of the Group.

Revenue from pre-orders of self-published games is normally deferred, then recognised when the Group meets its performance obligations upon commercial release of the game.

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.

Physical discs are distributed through our agents to retailers and the retailers are considered to be our customer. The performance obligation is satisfied at the point the retailer takes delivery of the discs but sales are made to retailers with a right of return. Revenue is recognised only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Due to the uncertainty around return levels for new games revenue is not recognised until the discs are sold by the retailer to the end user.

Revenue received from the virtual currency is recognised once the performance obligation has been satisfied and the customer has redeemed the virtual currency on paid downloadable content.

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, which the Group considers to be the Chief Executive Officer, 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 and warrants 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 or the Monte Carlo simulation. 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 which is included as an allowable deduction within the tax computation if not claimed as a cash credit. 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. The cost to develop this information internally would be excessive.

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.

The Group typically satisfies its performance obligations at the point that the product becomes available to the customer and payment has been received up front.

In both the period ended 31 May 2020 and the period ended 31 May 2019, other revenue mainly related to royalty income.

	12 months to 31 May 2020 £'000	12 months to 31 May 2019 £'000
Self-publishing revenue	**75,924**	89,476
Other revenue	**165**	193
	76,089	89,669

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

5. EMPLOYEE REMUNERATION
Staff costs for all employees for the Group and Company, including Directors, consist of:

	31 May 2020 £'000	31 May 2019 £'000
Staff remuneration	21,900	18,870
Social security costs	1,850	1,626
Pension costs	1,830	1,497
Share-based compensation	1,947	1,564
	27,527	23,557

Included in the above payroll costs for the year ended 31 May 2020 is £10,653,387 (2019: £8,368,105) 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 for the Group and Company, including Directors, during the period was:

	31 May 2020	31 May 2019
Research and development	427	371
Sales, marketing and administrative	69	49
	496	420

REMUNERATION OF DIRECTORS

	31 May 2020 £'000	31 May 2019 £'000
Directors' emoluments (including bonuses)	2,097	1,049
Non-Executive fees	113	79
Non-Executive consultancy fees	50	49

EMOLUMENTS OF HIGHEST PAID DIRECTOR

	31 May 2020 £'000	31 May 2019 £'000
Emoluments	403	321
Pension	18	10

For detailed Directors' remuneration disclosures refer to page 51 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 2020 £'000	31 May 2019 £'000
Minimum lease payments due within one year	–	1,945
Minimum lease payments due within one to five years	–	7,771
Minimum lease payments due in greater than five years	–	19,407
Total	–	29,123

Group lease payments recognised as an expense during the year ended 31 May 2020 amounted to £nil (31 May 2019: £1,953,924).

The lease payments in the year ended 31 May 2019 relate to lease agreements for office buildings.

The Group applied IFRS 16 "Leases" at 1 June 2019 and has recognised a right-of-use asset in the statement of financial position.

7. PROFIT BEFORE TAX

	31 May 2020 £'000	31 May 2019 £'000
This is stated after charging:		
Amortisation of intangible assets	**12,155**	8,717
Depreciation of tangible assets	**1,092**	883
Depreciation of right-of-use asset	**1,623**	—
Research and development costs expensed	**4,810**	7,057
Foreign exchange losses	**(299)**	302
Auditor remuneration:		
Audit of the parent and Group	**102**	60
Audit related assurance services	**—**	9
Operating leases	**—**	1,954

8. TAXATION ON ORDINARY ACTIVITIES

ANALYSIS OF THE CHARGE/(CREDIT) IN THE PERIOD

	31 May 2020 £'000	Restated* 31 May 2019 £'000
UK corporation tax based on the results for the year	**(226)**	1,759
Adjustments for prior periods	**555**	(91)
Tax on profit on ordinary activities	**329**	1,668

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% (2019: 19%) as follows:

	31 May 2020 £'000	Restated* 31 May 2019 £'000
Profit on ordinary activities before taxation	**16,223**	19,658
Tax on profit on ordinary activities at standard rate	**3,082**	3,738
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	**44**	385
Adjustments to tax charge in respect of previous periods	**555**	(91)
Income not taxable	**59**	—
Tax rate changes	**293**	—
Research and development tax credits	**(650)**	(262)
Video Games Tax Relief enhanced deductions	**(1,617)**	(608)
Deferred tax not recognised	**36**	—
Utilisation of deferred tax losses unrecognised in prior year	**—**	(605)
Corporation tax deductions for employee share option exercises	**(1,473)**	(371)
Utilisation of tax losses in current year	**—**	(1,916)
Adjustment to tax for share options	**—**	1,978
Restatement adjustment*	**—**	(580)
Total amount of tax	**329**	1,668

* Restated for a deferred tax adjustment as per note 2.

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 2020 the Group has recorded a corporation tax charge of £0.3 million (FY19: a restated credit of £1.7 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

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 2020	Restated* 31 May 2019
Profit attributable to shareholders (£'000)	**15,894**	17,990
Weighted average number of shares	**38,483,762**	38,337,119
Basic earnings per share (p)	**41.3**	46.9

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

	31 May 2020	Restated* 31 May 2019
Profit attributable to shareholders (£'000)	**15,894**	17,990
Diluted weighted average number of shares	**40,316,894**	40,254,488
Diluted earnings per share (p)	**39.4**	44.7

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

	31 May 2020	31 May 2019
Weighted average number of shares	**38,483,762**	38,337,119
Dilutive effect of share options	**1,833,132**	1,917,369
Diluted average number of shares	**40,316,894**	40,254,488

* Restated for a deferred tax adjustment as per note 2.

10. INTANGIBLE ASSETS

GROUP AND COMPANY

The Group and Company intangible assets comprise game technology, game developments, third-party software and IP licences. Game technology includes Frontier's COBRA game engine and other technology which supports the development and publication of games. The game developments category includes capitalised development costs for base game and PDLC assets for both internally developed games and games developed by partners within the Frontier Foundry third-party publishing games label. Third-party software includes subscriptions to development and business software. Intangible assets for IP licences are recognised at the execution of the licence, based on the minimum guarantees payable by Frontier to the IP owner.

	Game technology £'000	Game developments £'000	Third-party software £'000	IP licences £'000	Total £'000
Cost					
At 31 May 2018	5,467	42,818	428	1,336	50,049
Additions	1,295	12,141	168	1,377	14,981
At 31 May 2019	6,762	54,959	596	2,713	65,030
Additions	2,396	17,369	497	8,111	28,373
At 31 May 2020	**9,158**	**72,328**	**1,093**	**10,824**	**93,403**
Amortisation and impairment					
At 31 May 2018	4,428	15,130	305	—	19,863
Amortisation charges	365	7,469	178	705	8,717
At 31 May 2019	4,793	22,599	483	705	28,580
Amortisation charges	796	10,408	320	631	12,155
At 31 May 2020	**5,589**	**33,007**	**803**	**1,336**	**40,735**
Net book value at 31 May 2020	**3,569**	**39,321**	**290**	**9,488**	**52,668**
Net book value at 31 May 2019	1,969	32,360	113	2,008	36,450

The majority of amortisation charges for intangible assets are expensed within research and development expenses. Amortisation charges for IP licences are typically charged to cost of sales, which reflects the IP licence royalties which the minimum guarantees relate to.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP AND COMPANY

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2018	574	1,522	3,971	6,067
Additions	276	616	1,377	2,269
At 31 May 2019	850	2,138	5,348	8,336
Additions	13	643	10	666
At 31 May 2020	**863**	**2,781**	**5,358**	**9,002**
Depreciation				
At 31 May 2018	125	914	62	1,101
Charge for the period	121	478	284	883
At 31 May 2019	246	1,392	346	1,984
Charge for the period	150	607	335	1,092
At 31 May 2020	**396**	**1,999**	**681**	**3,076**
Net book value at 31 May 2020	**467**	**782**	**4,677**	**5,926**
Net book value at 31 May 2019	604	746	5,002	6,352

Leasehold improvements related to the fit-out of a new leased building in the Science Park in Cambridge which was occupied from April 2018. During the period to 31 May 2020 further fit-out costs were incurred as previously unused office space was occupied by the Group.

Depreciation charges were apportioned to the income statement as follows:

	Year ended 31 May 2020 £'000	Year ended 31 May 2019 £'000
Research and development expenses	**464**	347
Administration expenses	**628**	536
Total	**1,092**	883

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

12. LEASES

	Right of use asset £'000	Total £'000
Cost		
At 31 May 2018	–	–
Additions	–	–
At 31 May 2019	–	–
Additions	**24,356**	24,356
At 31 May 2020	**24,356**	24,356
Depreciation		
At 31 May 2018	–	–
Charge for the period	–	–
At 31 May 2019	–	–
Charge for the period	**1,624**	1,624
At 31 May 2020	**1,624**	1,624
Net book value at 31 May 2020	**22,732**	22,732
Net book value at 31 May 2019	–	–

The right of use asset relates to the leased building in the Science Park in Cambridge which was occupied from April 2018.

Depreciation charges were expensed within administrative expenses in the income statement.

Set out below are the carrying amounts of lease liabilities (included under current and non-current liabilities on the statement of financial position) and the movements during the period:

	31 May 2020 £'000
At 1 June 2019 (restated)	24,356
Accretion of interest	730
Lease payments	(1,551)
At 31 May 2020	**23,535**
Current	1,337
Non-current	22,198

The table below sets out the maturity profile of the contractual undiscounted payments as at 31 May 2020

	£'000
In not more than three months	517
In more than three months but less than one year	1,551
In more than one year but less than five years	10,340
In more than five years	16,027
At 31 May 2020	**28,435**

The discount rate applied to the lease is 3%.

13. TRADE AND OTHER RECEIVABLES

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Trade receivables, gross	**9,740**	2,932	**9,677**	2,930
Intercompany receivable	**—**	—	**287**	3,992
Prepayments and other debtors	**2,197**	2,015	**2,233**	1,992
Social security and other taxes	**347**	231	**342**	228
Total trade and other receivables	**12,284**	5,178	**12,539**	9,142

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.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included the following balances by currency:

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Cash at bank and in hand				
Great British Pounds (GBP)	**32,055**	24,206	**32,055**	24,206
US Dollars (USD)	**12,433**	9,324	**12,274**	5,348
Euros (EUR)	**1,262**	1,798	**1,262**	1,798
Canadian Dollars (CAD)	**1**	4	**1**	4
Financial assets	**45,751**	35,332	**45,592**	31,356

15. TRADE AND OTHER PAYABLES

CURRENT LIABILITIES

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Trade payables	**2,635**	3,056	**2,636**	3,056
Intercompany payable	**—**	—	**48**	10
Accruals	**10,345**	5,307	**10,329**	5,292
Financial liabilities	**12,980**	8,363	**13,013**	8,358
Derivative financial instruments	**—**	31	**—**	31
Other taxation and social security	**689**	632	**689**	632
Total trade and other payables	**13,669**	9,026	**13,702**	9,021

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. The majority of the increase in accruals is the commission due to third-party distributors for revenue balances due.

NON-CURRENT LIABILITIES

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Other payables	**8,237**	939	**8,237**	939
Total other payables	**8,237**	939	**8,237**	939

Other payables within non-current liabilities are minimum guarantees payable that are due to IP licence holders. The payment terms range from 12 months to six years.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

16. DEFERRED INCOME

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

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Deferred income – current	**1,439**	1,036	**1,390**	989
Deferred income – non-current	**234**	465	**185**	370
Total deferred income	**1,673**	1,501	**1,575**	1,359

The deferred revenue balance for the year ended 31 May 2020 is in respect of *Elite Dangerous* lifetime expansion passes, *Elite Dangerous* virtual currency and disc sales of *Jurassic World Evolution* that are still within the distribution channel.

Deferred revenue released during the period ended 31 May 2020 was £230k for *Elite Dangerous* lifetime expansion passes and £397k for Jurassic World Evolution disc sales.

Revenue deferred during the period ended 31 May 2020 was in relation to *Elite Dangerous* virtual currency at £797k (2019: £nil).

Non-current deferred income for *Elite Dangerous* lifetime expansion passes is due to be recognised over the expected remaining accounting life of the franchise period, which was the period originally set in 2014. At 31 May 2020 the remaining accounting life of the franchise lifetime expansion passes is considered to be one and a half years.

The deferred revenue for disc sales is expected to be released during the next 12 months.

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

17. CURRENT TAX ASSETS AND LIABILITIES

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

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	Restated* 31 May 2019 £'000	**31 May 2020 £'000**	Restated* 31 May 2019 £'000
Current tax asset	**2,377**	141	**2,374**	81
Current tax liability	**–**	(966)	**–**	(966)

* Restated for a deferred tax adjustment as per note 2.

The Group have recognised a current tax asset of £2.4 million at 31 May 2020 which relates to Video Games Tax Credit claims for the 12 months ended 31 May 2019.

18. PROVISIONS

PROVISIONS FOR DILAPIDATIONS

	Group and Company year ended	
	31 May 2020 £'000	31 May 2019 £'000
Opening balance	**13**	11
Provided for in the period	**14**	2
At period end	**27**	13

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.

19. DEFERRED TAX ASSETS AND LIABILITIES

	Group and Company year ended	
	31 May 2020 £'000	Restated* 31 May 2019 £'000
Accelerated capital allowances	**(4,038)**	—
Short-term temporary differences	**63**	—
Tax losses	**—**	605
Non-qualifying assets	**365**	—
Potential future share option exercises	**5,747**	2,580
Total asset/(liability)	**2,137**	3,185
Balance brought forward	**3,185**	—
Movement in year	**(1,048)**	3,185
Balance carried forward asset/(liability)	**2,137**	3,185

* Restated for a deferred tax adjustment as per note 2.

A net deferred tax asset has been recognised in the statement of financial position for the Group and Company as at 31 May 2020 of £2.1 million (FY19 restated net asset of £3.2 million).

Accumulated UK tax losses at 31 May 2020 are provisionally estimated to be £20 million (31 May 2019 restated: £19.8 million). Deferred tax assets for these losses have not been recognised due to uncertainty on the timing of the utilisation of the losses. This uncertainty of timing relates to the streaming of profits between the Group's main trade and its VGTR streamed earnings from its different games. The losses do not have an expiry date.

20. SHARE CAPITAL

GROUP AND COMPANY

The movement during the year on the Group and Company's issued share capital was as follows:

	Number	Nominal value £
As at 31 May 2018	38,602,298	193,012
Shares issued on option exercises and warrants	138,770	693
As at 31 May 2019	38,741,068	193,705
Shares issued on option exercises and warrants	170,742	854
As at 31 May 2020	**38,911,810**	**194,559**

From 1 June 2019 to 31 May 2020 170,742 Ordinary Shares of 0.5p were allotted as fully paid at a premium of 117p, being the exercise of warrants by a Non-Executive Director. The market value was 1,040p on the day of allotment.

For detailed information of the exercise of warrants refer to page 52 of the financial statements.

21. 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 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Financial assets at amortised cost				
Trade and other receivables	**9,740**	2,932	**9,964**	6,922
Cash and cash equivalents	**45,751**	35,332	**45,592**	31,356
Total	**55,491**	38,264	**55,556**	38,278

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

21. FINANCIAL ASSETS AND LIABILITIES

DERIVATIVE FINANCIAL INSTRUMENTS

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

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Derivative financial liabilities				
Forward foreign exchange contracts – held for trading	**–**	(31)	**–**	(31)

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 2020 or 2019.

	Consolidated year ended		Company year ended	
	31 May 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Financial liabilities at amortised cost				
Trade and other payables	**12,980**	8,363	**13,013**	8,358
Lease liability	**1,337**	—	**1,337**	—
Total	**14,317**	8,363	**14,350**	8,358

22. 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.

The registered address of Frontier Developments Inc. is 500 N. Rainbow Blvd, Suite 300, Las Vegas NV 89107, USA.

The Company holds a £100 investment in Frontier Games Ltd., a company registered in the UK. This represents 100% of the Ordinary Share capital of the company, which is engaged in game development services for the Group.

The registered address of Frontier Games Ltd. is 26 Science Park, Milton Road, Cambridge CB4 0FP, UK.

23. 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, May 2018, October 2018, April 2019, October 2019 and March 2020) and a Long Term Incentive Plan (November 2017, January 2018, May 2018, October 2018 and October 2019). 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	**2020 Number**	2019 Number
30 July 2012	2012 EMI scheme	2012–2022	89	**87,970**	116,543
15 May 2013	2013 EMI scheme	2014–2023	95	**4,000**	4,000
8 July 2013	Unapproved pre-IPO warrants	2013–2023	95	**13,158**	65,790
15 July 2013	Unapproved IPO warrants	2013–2023	127	**29,528**	147,638
21 March 2014	Company Share Option Plan	2017–2024	224.5	**62,500**	74,000
15 September 2014	Company Share Option Plan	2017–2024	257.5	**91,980**	134,330
15 September 2014	Unapproved options	2017–2024	257.5	**138,250**	164,100
15 September 2014	Unapproved options	2015–2024	257.5	**288,350**	288,350
10 March 2015	Company Share Option Plan	2018–2025	230	**63,750**	80,330
10 March 2015	Unapproved options	2018–2025	230	**29,000**	29,000
21 September 2015	Company Share Option Plan	2018–2025	193.5	**38,500**	82,400
21 September 2015	Unapproved options	2018–2025	193.5	**13,800**	37,200
8 September 2016	Company Share Option Plan	2019–2026	174	**67,750**	154,000
8 September 2016	Unapproved options	2019–2026	174	**132,750**	156,000
9 February 2017	Company Share Option Plan	2020–2027	278	**52,310**	92,000
9 February 2017	Unapproved options	2020–2027	278	**25,000**	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
1 November 2017	Sharesave	2020–2027	952	**66,896**	72,111
10 November 2017	Company Share Option Plan	2020–2027	1,094	**102,682**	106,772
10 November 2017	Long Term Incentive Plan	2020–2027	0.5	**144,781**	145,904
8 May 2018	Sharesave	2021–2028	1,044	**14,066**	14,616
17 October 2018	Company Share Option Plan	2021–2028	1,130	**52,670**	65,908
17 October 2018	Long Term Incentive Plan	2021–2028	0.5	**139,108**	142,756
8 October 2018	Sharesave	2021–2028	904	**26,957**	31,177
6 February 2019	Company Share Option Plan	2022–2029	886	**3,386**	3,386
6 February 2019	Long Term Incentive Plan	2022–2029	0.5	**558**	558
1 April 2019	Sharesave	2022–2029	783	**43,020**	52,255
4 October 2019	Company Share Option Plan	2022–2029	1,002	**52,771**	—
4 October 2019	Long Term Incentive Plan	2022–2029	0.5	**294,432**	—
4 October 2019	Sharesave	2022–2029	832	**23,217**	—
26 February 2020	Company Share Option Plan	2023–2030	1,188	**2,525**	—
25 March 2020	Sharesave	2023–2030	947	**11,775**	—
				2,446,996	2,625,680

23. SHARE OPTIONS CONTINUED

Movements in the number of share options and warrants outstanding:

	Group and Company year ended	
	2020 Number	2019 Number
Opening balance	**2,625,680**	2,595,088
Granted	**415,839**	324,021
Exercised	**(510,085)**	(148,850)
Lapsed	**(84,438)**	(144,579)
Closing balance	**2,446,996**	2,625,680
Weighted average exercise price on closing balance	**299.8**	295.3

The share-based compensation charge in the profit and loss was £1,946,725 (31 May 2019: £1,563,629), of which £8,541 (31 May 2019: £16,712) 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 or the Monte Carlo simulation. Details of the fair value granted in the period, together with the assumptions used in determining the fair value, are summarised below:

	Sharesave March 2020	CSOP February 2020	Sharesave October 2019	CSOP October 2019	LTIP October 2019
Share price at date of grant (p)	947	1,188	832	1,002	1,002
Exercise price (p)	947	1,188	832	1,002	0.5
Expected time to expiry (years)	4.56	4.56	4.56	4.56	4.56
Risk-free interest rate (%)	1.28	1.45	1.47	1.47	1.47
Expected dividend yield on shares (%)	—	—	—	—	—
Expected volatility of share price (%)	55.64	53.86	53.43	53.43	53.43
Fair value of options granted (p)	439.2	538.7	375.0	451.6	1,001.5

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 339,343 Ordinary Shares. The EBT had no other assets or liabilities at 31 May 2020 outside of its interest in 163,325 Ordinary Shares.

24. 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 2020 £'000**	**Creditor balance 31 May 2020 £'000**	Expense paid 31 May 2019 £'000	Creditor balance 31 May 2019 £'000
Chris Sawyer – royalties	**14**	**–**	34	—
Marjacq Micro Limited – sales commission	**–**	**–**	13	—

24. RELATED PARTY TRANSACTIONS CONTINUED

GROUP AND COMPANY YEAR ENDED

Connected party	**Change in value of loan expense paid 31 May 2020 £'000**	Change in value of loan expense paid 31 May 2019 £'000
EBT – share options exercised by employees	**–**	(133)
Contribution to EBT to purchase shares on market	**–**	5,000
Voluntary contribution to the Trust to repay outstanding loan balance during year ended 31 May 2018	**–**	(4,867)
Movement in year	**–**	–
Opening loan balance	**–**	–
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 2020 £'000	31 May 2019 £'000
Directors' emoluments (including bonuses)	**1,309**	1,167
Non-Executive fees	**125**	83
Non-Executive consultancy fees	**50**	49

Consultancy fees are paid to Rockspring Ltd, a company in which David Gammon is a common director, amounting to £50k (2019: £49k). The amount outstanding at 31 May 2020 is £5k (2019: £5k).

25. 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 21. 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 21).

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.

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 2020			Consolidated year ended 31 May 2019			**Company year ended 31 May 2020**			Company year ended 31 May 2019		
	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	**1**	**12,433**	**1,262**	4	9,324	1,798	**1**	**12,274**	**1,262**	4	5,348	1,798

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MAY 2020

25. FINANCIAL INSTRUMENT RISKS CONTINUED
RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED
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 2020 £'000	31 May 2019 £'000	**31 May 2020 £'000**	31 May 2019 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	**2,108**	2,365	**2,112**	2,356
Equity	**1,148**	724	**1,158**	724

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
At 31 May 2020				
Trade and other payables	**12,017**	**963**	**8,237**	**—**
At 31 May 2019				
Trade and other payables	7,810	553	—	—

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
At 31 May 2020				
Trade and other payables	**12,050**	**963**	**8,237**	**—**
At 31 May 2019				
Trade and other payables	7,804	553	—	—

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.

Changes in liabilities arising from financing activities

	1 June 2019 £'000	Cashflows	Other	31 May 2020 £'000
Current lease liabilities	1,337	—	—	1,337
Non-current lease liabilities	23,019	(1,551)	730	22,198
Total liabilities from financing activities	**24,356**	**(1,551)**	**730**	**23,535**

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2020
(REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2020 £'000	Restated* 31 May 2019 £'000
Non-current assets			
Intangible assets	10	**52,668**	36,450
Property, plant and equipment	11	**5,926**	6,352
Right-of-use asset	12	**22,732**	—
Deferred tax asset	19	**6,175**	3,185
		87,501	45,987
Current assets			
Trade and other receivables	13	**12,539**	9,142
Current tax asset	17	**2,374**	81
Cash and cash equivalents	14	**45,592**	31,356
		60,505	40,579
Total assets		**148,006**	86,566
Current liabilities			
Trade and other payables	15	**(13,702)**	(9,021)
Lease liability		**(1,337)**	—
Deferred income	16	**(1,390)**	(989)
Current tax liabilities	17	**—**	(966)
		(16,429)	(10,976)
Net current assets		**44,076**	29,603
Non-current liabilities			
Provisions	18	**(27)**	(13)
Lease liability		**(22,198)**	—
Deferred income	16	**(185)**	(370)
Other payables	15	**(8,237)**	(939)
Deferred tax liabilities	19	**(4,038)**	—
		(34,685)	(1,322)
Total liabilities		**(51,114)**	(12,298)
Net assets		**96,892**	74,268
Equity			
Share capital	20	**195**	194
Share premium account		**34,589**	34,390
Equity reserve		**(925)**	(3,073)
Retained earnings		**63,033**	42,757
Total equity		**96,892**	74,268

* Restated for a deferred tax adjustment as per note 2.

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 £15,971K (2019: £17,994K).

These financial statements were approved by the Directors on 9 September 2020 and signed on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY

COMPANY STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MAY 2020

	31 May 2020 £'000	31 May 2019 £'000
Cash generated from operations	**36,346**	28,536
Taxes received	**–**	480
Cashflow from operating activities	**36,346**	29,016
Investing activities		
Purchase of property, plant and equipment	**(666)**	(2,269)
Expenditure on intangible assets	**(21,044)**	(14,981)
Interest received	**240**	289
Cashflow from investing activities	**(21,470)**	(16,961)
Financing activities		
Proceeds from issue of share capital	**200**	259
Employee Benefit Trust net cash inflow/(outflow)	**711**	(4,882)
Payment of lease liabilities and related interest	**(1,551)**	–
Cashflow from financing activities	**(640)**	(4,623)
Net change in cash and cash equivalents from continuing operations	**14,236**	7,432
Cash and cash equivalents at beginning of period	**31,356**	23,924
Exchange differences on cash and cash equivalents	**–**	–
Cash and cash equivalents at end of period	**45,592**	31,356

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2020 £'000	31 May 2019 £'000
Operating profit	**16,732**	19,385
Depreciation and amortisation	**14,870**	9,600
EBITDA	**31,602**	28,985
Movement in unrealised exchange gains on forward contracts	**(91)**	(345)
Share-based payment expenses	**1,947**	1,564
Operating cashflows before movements in working capital	**33,458**	30,204
Net changes in working capital:		
Change in trade and other receivables	**(3,306)**	(2,279)
Change in trade and other payables	**6,180**	609
Change in provisions	**14**	2
Cash generated from operations	**36,346**	28,536

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2020

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2018	193	34,132	780	20,250	55,355
Profit for the year	—	—	—	17,994	17,994
Total comprehensive income for the year	—	—	—	17,994	17,994
Issue of share capital net of expenses	1	258	—	—	259
Share-based payment charges	—	—	1,564	—	1,564
Share-based payment transfer relating to option lapses	—	—	(535)	535	—
EBT share inflows from issues and/or purchases	—	—	(5,000)	—	(5,000)
EBT share outflows from option exercises	—	—	118	—	118
Tax credits on share options taken directly to reserves	—	—	—	1,978	1,978
Deferred tax movements posted directly to reserves – restated*	—	—	—	2,000	2,000
Transactions with owners	1	258	(3,853)	4,513	919
At 31 May 2019 – restated*	194	34,390	(3,073)	42,757	74,268
Adjustment for adoption of IFRS 16 – lease accounting	—	—	—	1,313	1,313
At 1 June 2020 (adjusted)	194	34,390	(3,073)	44,070	75,581
Profit for the year	—	—	—	15,971	15,971
Total comprehensive income for the year	—	—	—	15,971	15,971
Issue of share capital net of expenses	1	199	—	—	200
Share-based payment charges	—	—	1,947	—	1,947
Share-based payment transfer relating to option lapses	—	—	(510)	510	—
EBT share inflows from issues and/or purchases	—	—	—	—	—
EBT share outflows from option exercises	—	—	711	—	711
Tax credits on share options taken directly to reserves	—	—	—	—	—
Deferred tax movements posted directly to reserves	—	—	—	2,482	2,482
Transactions with owners	1	199	2,148	2,992	5,340
At 31 May 2020	**195**	**34,589**	**(925)**	**63,033**	**96,892**

* Restated for a deferred tax adjustment as per note 2.