

Consolidated income statement for the year ended 31 May 2021

	Notes	31 May 2021 £'000	31 May 2020 £'000
Revenue	4	90,688	76,089
Cost of sales		(27,538)	(24,532)
Gross profit		63,150	51,557
Research and development expenses		(22,025)	(16,014)
Sales and marketing expenses		(7,269)	(5,747)
Administrative expenses		(13,940)	(13,172)
Operating profit		19,916	16,624
Finance costs		(731)	(401)
Profit before tax	6	19,185	16,223
Income tax	7	2,373	(329)
Profit for the period attributable to shareholders		21,558	15,894

All the activities of the Group are classified as continuing.

	Notes	31 May 2021 p	31 May 2020 p
Earnings per share	8		
Basic earnings per share		55.4	41.3
Diluted earnings per share		53.3	39.4

Consolidated statement of comprehensive income for the year ended 31 May 2021

	31 May 2021 £'000	31 May 2020 £'000
Profit for the period	21,558	15,894
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	23	(6)
Total comprehensive income for the period attributable to the equity holders of the parent	21,581	15,888

FINANCIAL STATEMENTS

Consolidated statement of financial position as at 31 May 2021 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2021 £'000	Restated* 31 May 2020 £'000
Non-current assets			
Intangible assets	9	71,318	52,668
Property, plant and equipment	10	6,078	5,926
Right-of-use asset	11	21,108	22,732
Deferred tax asset	18	384	2,137
		98,888	83,463
Current assets			
Trade and other receivables	12	13,741	12,284
Current tax asset	16	6,468	2,377
Cash and cash equivalents	13	42,423	45,751
		62,632	60,412
Total assets		161,520	143,875
Current liabilities			
Trade and other payables	14	(14,768)	(13,669)
Lease liability		(1,419)	(1,337)
Deferred income	15	(2,180)	(1,439)
		(18,367)	(16,445)
Net current assets		44,265	43,967
Non-current liabilities			
Provisions	17	(41)	(27)
Lease liability		(20,739)	(22,198)
Deferred income	15	—	(234)
Other payables	14	(9,219)	(8,237)
		(29,999)	(30,696)
Total liabilities		(48,366)	(47,141)
Net assets		113,154	96,734
Equity			
Share capital	19	197	195
Share premium account		36,079	34,589
Equity reserve		(9,351)	(925)
Foreign exchange reserve		1	(22)
Retained earnings		86,228	62,897
Total equity		113,154	96,734

* Restated for a presentation adjustment as per note 2.

These financial statements were approved by the Directors on 8 September 2021 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 2021

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 1 June 2019	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 net cash inflows from option exercises	—	—	711	—	—	711
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
Profit for the year	—	—	—	—	21,558	21,558
Other comprehensive income:						
Exchange differences on translation of foreign operations	—	—	—	23	—	23
Total comprehensive income for the year	—	—	—	23	21,558	21,581
Issue of share capital net of expenses	2	1,490	—	—	—	1,492
Share-based payment charges	—	—	2,155	—	—	2,155
Share-based payment transfer relating to option exercises and lapses	—	—	(1,770)	—	1,770	—
EBT cash outflows from share purchases	—	—	(10,000)	—	—	(10,000)
EBT net cash inflows from option exercises	—	—	1,189	—	—	1,189
Deferred tax movements posted directly to reserves	—	—	—	—	3	3
Transactions with owners	2	1,490	(8,426)	—	1,773	(5,161)
At 31 May 2021	197	36,079	(9,351)	1	86,228	113,154

FINANCIAL STATEMENTS

Consolidated statement of cashflows for the year ended 31 May 2021

	31 May 2021 £'000	31 May 2020 £'000
Cash generated from operations	38,916	32,415
Taxes received	38	—
Cashflow from operating activities	38,954	32,415
Investing activities		
Purchase of property, plant and equipment	(1,375)	(666)
Expenditure on intangible assets	(31,502)	(21,044)
Interest received	48	330
Cashflow from investing activities	(32,829)	(21,380)
Financing activities		
Proceeds from issue of share capital	1,492	200
Employee Benefit Trust cash outflows from share purchases	(10,000)	—
Employee Benefit Trust cash inflows from option exercises	1,189	711
Payment of principal element of lease liabilities	(1,377)	(820)
Payment of interest element of lease liabilities	(691)	(731)
Interest paid	(88)	—
Cashflow from financing activities	(9,475)	(640)
Net change in cash and cash equivalents from continuing operations	(3,350)	10,395
Cash and cash equivalents at beginning of period	45,751	35,332
Exchange differences on cash and cash equivalents	22	24
Cash and cash equivalents at end of period	42,423	45,751

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2021 £'000	31 May 2020 £'000
Operating profit	19,916	16,624
Depreciation and amortisation	18,167	14,870
EBITDA	38,083	31,494
Movement in unrealised exchange gains on forward contracts	(223)	(91)
Share-based payment expenses	2,155	1,947
Operating cashflows before movements in working capital	40,015	33,350
Net changes in working capital:		
Change in trade and other receivables	(1,233)	(7,046)
Change in trade and other payables	119	6,097
Change in provisions	15	14
Cash generated from operations	38,916	32,415

Notes to the financial statements for the year ended 31 May 2021

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 consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards (IASs) in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 FY21, an error was identified in relation to the presentation of deferred tax in the prior year.

The presentation error identified does not change the tax reporting to the tax authorities, nor is there any income statement or earnings per share impact. It only affects the Statement of Financial Position.

IAS 12 requires that deferred tax balances are presented on a net basis where there is a legally enforceable right to offset and the balances relate to the same tax jurisdiction. As the deferred tax balances relate to the UK and the future recoverable and payable amounts can be legally offset, an adjustment has therefore been recorded to present the deferred tax on a net basis on the face of the consolidated statement of financial position and the Company statement of financial position.

This presentation adjustment has the impact of reducing deferred tax liabilities at 31 May 2020 from £4,038,000 previously stated to £nil, and reducing deferred tax assets by £4,038,000 from £6,175,000 previously stated to £2,137,000.

There is no change to the nature and values of the underlying deferred tax assets and liabilities at 31 May 2020 as set out in note 19 of the FY20 Annual Report and Accounts.

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, based on the Group's forecasts and projections for the period to 30 November 2022. 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 (including treasury deposits) at the balance sheet date of 31 May 2021 of £42.4 million along with expected cash inflows from current business 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 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 scenarios both consider a reduction in predicted revenues, however the reduction would need to be severe in order to prevent the Group from continuing as a going concern and is considered to be highly unlikely to occur. The Group have also identified mitigating actions that could be reasonably taken, if required, to offset the reduction of cash inflows, to enable it to continue its operations for the period to 30 November 2022.

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

- severe operational disruption across all third-party distributors resulting in a significant reduction of revenue for the Group; and
- some operational disruption across all third-party distributors resulting in a reduction of revenue for the Group.

As expected, 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 has been able to continue with current headcount growth plans and has sustained a high level of recruitment to support the roadmap;
- there has been no impact to debtor recoverability; and
- should a more extreme downside scenario occur the Group could take further mitigating actions by reducing discretionary spend.

Notes to the financial statements continued for the year ended 31 May 2021

2. BASIS OF PREPARATION CONTINUED

ASSESSMENT OF GOING CONCERN DUE TO COVID-19 CONTINUED

Having considered all of the above, including the current strong cash position, no current impact on debtor recoverability and the continued strong trading performance for the Group, the Directors are satisfied that there are sufficient resources to continue operations for the period to 30 November 2022. The financial statements for the year ended 31 May 2021 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

- Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective 1 January 2021)
- COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16 (effective 1 April 2021)

OTHER STANDARDS

The following new standards, amended standards and interpretations became effective as at 1 January 2020 but did not have a material impact on the Group's financial statements:

- Extension of the Temporary Exemption from applying IFRS 9 – Amendments to IFRS 4

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 cashflows, 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 game at each period-end date. The net book values of the Group and Company intangible assets including rights acquired at 31 May 2021 are £71,318k (2020: £52,668k).

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 losses has not been recognised as at 31 May 2021 due to uncertainty on the timing of the utilisation of those losses.

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

ACCOUNTING POLICIES

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 includes development of self-published games and also titles under Frontier Foundry;
- third-party software which includes software bought from suppliers for use within the Group's activities; and
- IP licences 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 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. 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.

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.

Notes to the financial statements continued for the year ended 31 May 2021

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

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.

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.

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).

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

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.

Employee Benefit Trust

As the Company is deemed to have control of its 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 exchange 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 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, 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.

Notes to the financial statements continued for the year ended 31 May 2021

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

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.

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.

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.

Management information is reported as one operating segment, being revenue from publishing games and revenue from other 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 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 2021 and the period ended 31 May 2020, other revenue mainly related to royalty income.

	12 months to 31 May 2021 £'000	12 months to 31 May 2020 £'000
Publishing revenue	90,471	75,924
Other revenue	217	165
	90,668	76,089

5. EMPLOYEE REMUNERATION

Staff costs for all employees for the Group and Company, including Directors, consist of:

	31 May 2021 £'000	31 May 2020 £'000
Staff remuneration	24,962	21,900
Social security costs	2,384	1,850
Pension costs	2,262	1,830
Share-based compensation	2,155	1,947
	31,763	27,527

Included in the above payroll costs for the year ended 31 May 2021 is £15,714,243 (2020: £10,653,387) capitalised within intangible fixed assets (see note 9). 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 2021	31 May 2020
Research and development	496	427
Sales, marketing and administrative	88	69
	584	496

REMUNERATION OF DIRECTORS

	31 May 2021 £'000	31 May 2020 £'000
Directors' emoluments (including bonuses)	1,545	2,097
Aggregate gains on the exercise of share options	8,144	683
Non-Executive fees	158	113
Non-Executive consultancy fees	42	50

EMOLUMENTS OF HIGHEST PAID DIRECTOR

	31 May 2021 £'000	31 May 2020 £'000
Emoluments (including bonuses and share option gains)	4,947	403
Pension	—	18

For detailed Directors' remuneration disclosures refer to page 59 of the financial statements.

FINANCIAL STATEMENTS

Notes to the financial statements continued for the year ended 31 May 2021

6. PROFIT BEFORE TAX

	31 May 2021 £'000	31 May 2020 £'000
This is stated after charging:		
Amortisation of intangible assets	15,320	12,155
Depreciation of tangible assets	1,223	1,092
Depreciation of right-of-use asset	1,624	1,623
Research and development costs expensed	7,129	4,810
Foreign exchange gains/(losses)	726	(299)
Auditor remuneration:		
Audit of the parent and Group	110	102

7. TAXATION ON ORDINARY ACTIVITIES ANALYSIS OF THE (CREDIT)/CHARGE IN THE PERIOD

	31 May 2021 £'000	31 May 2020 £'000
UK corporation tax based on the results for the year	(1,828)	(226)
Adjustments for prior periods	(545)	555
Tax on profit on ordinary activities	(2,373)	329

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% (2020: 19%) as follows:

	31 May 2021 £'000	31 May 2020 £'000
Profit on ordinary activities before taxation	19,185	16,223
Tax on profit on ordinary activities at standard rate	3,652	3,082
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	13	44
Adjustments to tax charge in respect of previous periods	(545)	555
Income not taxable	–	59
Tax rate changes	–	293
Tax rate benefit on surrender of tax losses	(415)	–
Utilisation of tax losses in current year	(816)	(650)
Video Games Tax Relief enhanced deductions	(2,430)	(1,617)
Benefit of patent box	(1,430)	–
Deferred tax not recognised	(402)	36
Corporation tax deductions for employee share option exercises	–	(1,473)
Total amount of tax	(2,373)	329

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 2021 the Group has recorded a corporation tax credit of £2.4 million (FY20: a charge of £0.3 million).

8. EARNINGS PER SHARE

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

	31 May 2021	31 May 2020
Profit attributable to shareholders (£'000)	21,558	15,894
Weighted average number of shares	38,909,932	38,483,762
Basic earnings per share (p)	55.4	41.3

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 2021	31 May 2020
Profit attributable to shareholders (£'000)	21,558	15,894
Diluted weighted average number of shares	40,471,633	40,316,894
Diluted earnings per share (p)	53.3	39.4

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

	31 May 2021	31 May 2020
Weighted average number of shares	38,909,932	38,483,762
Dilutive effect of share options	1,561,701	1,833,132
Diluted average number of shares	40,471,633	40,316,894

9. 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 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
Additions	7,851	25,138	620	361	33,970
Transfer	—	(347)	347	—	—
At 31 May 2021	17,009	97,119	2,060	11,185	127,373
Amortisation and impairment					
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
Amortisation charges	1,469	13,427	424	—	15,320
At 31 May 2021	7,058	46,434	1,227	1,336	56,055
Net book value at 31 May 2021	9,951	50,685	833	9,849	71,318
Net book value at 31 May 2020	3,569	39,321	290	9,488	52,668

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.

Notes to the financial statements continued
for the year ended 31 May 2021**10. PROPERTY, PLANT AND EQUIPMENT
GROUP AND COMPANY**

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
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
Additions	—	1,375	—	1,375
At 31 May 2021	863	4,156	5,358	10,377
Depreciation				
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
Charge for the period	150	738	335	1,223
At 31 May 2021	546	2,737	1,016	4,299
Net book value at 31 May 2021	317	1,419	4,342	6,078
Net book value at 31 May 2020	467	782	4,677	5,926

Leasehold improvements related to the fit-out of a new leased building in the Science Park in Cambridge which was occupied from April 2018.

Depreciation charges were apportioned to the income statement as follows:

	Year ended 31 May 2021 £'000	Year ended 31 May 2020 £'000
Research and development expenses	738	464
Administration expenses	485	628
Total	1,223	1,092

11. LEASES

GROUP AND COMPANY

	Right-of-use asset £'000	Total £'000
Cost		
At 31 May 2019	—	—
Additions	24,356	24,356
At 31 May 2020	24,356	24,356
Additions	—	—
At 31 May 2021	24,356	24,356
Depreciation		
At 31 May 2019	—	—
Charge for the period	1,624	1,624
At 31 May 2020	1,624	1,624
Charge for the period	1,624	1,624
At 31 May 2021	3,248	3,248
Net book value at 31 May 2021	21,108	21,108
Net book value at 31 May 2020	22,732	22,732

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

Depreciation charges are 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:

	£'000
At 1 June 2020	23,535
Accretion of interest	691
Lease payments	(2,068)
At 31 May 2021	22,158
Current	1,419
Non-current	20,739

The table below sets out the maturity profile of the contractual undiscounted payments as at 31 May 2021.

	£'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	13,959
At 31 May 2021	26,367

The discount rate applied to the lease is 3%.

FINANCIAL STATEMENTS

Notes to the financial statements continued for the year ended 31 May 2021

12. TRADE AND OTHER RECEIVABLES

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Trade receivables, gross	10,053	9,740	9,768	9,677
Intercompany receivable	—	—	5,357	287
Prepayments and other debtors	3,408	2,197	3,670	2,233
Social security and other taxes	280	347	273	342
Total trade and other receivables	13,741	12,284	19,068	12,539

All amounts are short term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

No receivables are past their due date. The majority of receivables are balances with third-party distributors.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included the following balances by currency:

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Cash at bank and in hand				
Great British Pounds (GBP)	23,804	32,055	23,804	32,055
US Dollars (USD)	15,920	12,433	15,559	12,274
Euros (EUR)	2,695	1,262	2,695	1,262
Canadian Dollars (CAD)	4	1	4	1
Financial assets	42,423	45,751	42,062	45,592

14. TRADE AND OTHER PAYABLES

CURRENT LIABILITIES

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Trade payables	2,648	2,635	2,648	2,636
Intercompany payable	—	—	4,856	48
Accruals and other payables	11,190	10,345	11,169	10,329
Financial liabilities	13,838	12,980	18,673	13,013
Derivative financial instruments	—	—	—	—
Other taxation and social security	930	689	930	689
Total trade and other payables	14,768	13,669	19,603	13,702

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.

14. TRADE AND OTHER PAYABLES CONTINUED

NON-CURRENT LIABILITIES

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Other payables	9,219	8,237	9,219	8,237
Total other payables	9,219	8,237	9,219	8,237

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 five years.

15. DEFERRED INCOME

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

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Deferred income – current	2,180	1,439	2,138	1,390
Deferred income – non-current	–	234	–	185
Total deferred income	2,180	1,673	2,138	1,575

The deferred income balance for the year ended 31 May 2021 is in respect of *Elite Dangerous* lifetime expansion passes, *Elite Dangerous* virtual currency and disc sales of *Jurassic World Evolution* and *Planet Coaster Console* that are still within the distribution channel.

Deferred income released during the period ended 31 May 2021 was £227k for *Elite Dangerous* lifetime expansion passes, £223k for *Jurassic World Evolution* disc sales, £599k for *Planet Coaster Console* disc sales and £747k for *Elite Dangerous* virtual currency.

Income deferred during the period ended 31 May 2021 was in relation to £205k for *Jurassic World Evolution* disc sales, £1.2 million for *Planet Coaster Console* disc sales and £875k for *Elite Dangerous* virtual currency.

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 2021 the remaining accounting life of the franchise lifetime expansion passes is considered to be less than 12 months.

The deferred income 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.

16. 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 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Current tax asset	6,468	2,377	5,682	2,374

The Group have recognised a current tax asset of £6.5 million at 31 May 2021 which relates to Video Games Tax Credit claims for FY19, FY20 and FY21.

17. PROVISIONS

	Group and Company year ended	
	31 May 2021 £'000	31 May 2020 £'000
Opening balance	27	13
Provided for in the period	14	14
At period end	41	27

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.

FINANCIAL STATEMENTS

Notes to the financial statements continued for the year ended 31 May 2021

18. DEFERRED TAX ASSETS AND LIABILITIES

	Group and Company year ended	
	31 May 2021 £'000	31 May 2020 £'000
Short-term temporary differences	46	63
Intangible and tangible fixed assets	(5,349)	(3,673)
Potential future share option exercises	5,687	5,747
Total net asset/(liability)	384	2,137
Net balance brought forward – asset/(liability)	2,137	3,185
Movement in year	(1,753)	(1,048)
Net balance carried forward – asset/(liability)	384	2,137

A net deferred tax asset has been recognised in the statement of financial position for the Group and Company as at 31 May 2021 of £0.3 million (31 May 2020: net asset of £2.1 million).

Accumulated UK tax losses at 31 May 2021 are provisionally estimated to be £53 million (31 May 2020: £20 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.

19. 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 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
Shares issued on option exercises and warrants	431,794	2,159
As at 31 May 2021	39,343,604	196,718

From 1 June 2020 to 31 May 2021 431,794 Ordinary Shares of 0.5p were allotted as fully paid at a premium of 345p, being the exercise of share options by employees and warrants by the Non-Executive Directors. The average market value was 2,644p on the day of allotment.

For detailed information of the exercise of options and warrants refer to page 60 of the financial statements.

20. FINANCIAL ASSETS AND LIABILITIES

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities:

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Financial assets at amortised cost				
Trade and other receivables	10,053	9,740	14,142	9,964
Cash and cash equivalents	42,423	45,751	42,062	45,592
Total	52,476	55,491	56,204	55,556

20. FINANCIAL ASSETS AND LIABILITIES CONTINUED

DERIVATIVE FINANCIAL INSTRUMENTS

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

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Derivative financial assets				
Forward foreign exchange contracts – held for trading	283	60	283	60

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 2021 or 2020.

	Consolidated year ended		Company year ended	
	31 May 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Financial liabilities at amortised cost				
Trade and other payables	13,838	12,980	18,673	13,013
Lease liability	1,419	1,337	1,419	1,337
Total	15,257	14,317	20,092	14,350

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

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

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.

Notes to the financial statements continued for the year ended 31 May 2021

22. SHARE OPTIONS

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

The Group operates two EMI schemes (pre-July 2013), a HMRC-approved Company Share Option Plan (from January 2014), two unapproved schemes (one pre-July 2013 and one post-January 2014), a HMRC-approved Sharesave scheme (October 2017, May 2018, October 2018, April 2019, October 2019, March 2020, October 2020 and March 2021) and a Long Term Incentive Plan (November 2017, January 2018, May 2018, October 2018, October 2019, October 2020 and November 2020). 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	2021 Number	2020 Number
30 July 2012	2012 EMI scheme	2012–2022	89	73,370	87,970
15 May 2013	2013 EMI scheme	2014–2023	95	2,000	4,000
8 July 2013	Unapproved pre-IPO warrants	2013–2023	95	13,158	13,158
15 July 2013	Unapproved IPO warrants	2013–2023	127	29,528	29,528
21 March 2014	Company Share Option Plan	2017–2024	224.5	44,100	62,500
15 September 2014	Company Share Option Plan	2017–2024	257.5	67,330	91,980
15 September 2014	Unapproved options	2017–2024	257.5	43,106	138,250
15 September 2014	Unapproved options	2015–2024	257.5	287,144	288,350
10 March 2015	Company Share Option Plan	2018–2025	230	39,200	63,750
10 March 2015	Unapproved options	2018–2025	230	16,500	29,000
21 September 2015	Company Share Option Plan	2018–2025	193.5	29,600	38,500
21 September 2015	Unapproved options	2018–2025	193.5	13,800	13,800
8 September 2016	Company Share Option Plan	2019–2026	174	30,750	67,750
8 September 2016	Unapproved options	2019–2026	174	41,500	132,750
9 February 2017	Company Share Option Plan	2020–2027	278	25,200	52,310
9 February 2017	Unapproved options	2020–2027	278	–	25,000
31 May 2017	Company Share Option Plan	2020–2027	406	–	7,389
31 May 2017	Unapproved options	2020–2027	406	7,389	22,167
31 May 2017	Unapproved options	2020–2027	250	100,000	300,000
1 November 2017	Sharesave	2020–2027	952	1,890	66,896
10 November 2017	Company Share Option Plan	2020–2027	1,094	37,842	102,682
10 November 2017	Long Term Incentive Plan	2020–2027	0.5	97,588	144,781
8 May 2018	Sharesave	2021–2028	1,044	13,586	14,066
17 October 2018	Company Share Option Plan	2021–2028	1,130	49,192	52,670
17 October 2018	Long Term Incentive Plan	2021–2028	0.5	131,576	139,108
8 October 2018	Sharesave	2021–2028	904	25,626	26,957
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	39,736	43,020
4 October 2019	Company Share Option Plan	2022–2029	1,002	44,261	52,771
4 October 2019	Long Term Incentive Plan	2022–2029	0.5	283,315	294,432
4 October 2019	Sharesave	2022–2029	832	20,926	23,217
26 February 2020	Company Share Option Plan	2023–2030	1,188	–	2,525
25 March 2020	Sharesave	2023–2030	947	10,920	11,775
8 October 2020	Sharesave	2023–2030	2,040	26,326	–
9 October 2020	Company Share Option Plan	2023–2030	2,455	46,148	–
9 October 2020	Long Term Incentive Plan	2023–2030	0.5	90,804	–
27 November 2020	Company Share Option Plan	2023–2030	2,410	6,220	–
27 November 2020	Long Term Incentive Plan	2023–2030	0.5	1,373	–
25 March 2021	Sharesave	2024–2031	1,972	33,924	–
				1,828,872	2,446,996

22. SHARE OPTIONS CONTINUED

Movements in the number of share options and warrants outstanding:

	Group and Company year ended	
	2021 Number	2020 Number
Opening balance	2,446,996	2,625,680
Granted	214,599	415,839
Exercised	(767,086)	(510,085)
Lapsed	(65,637)	(84,438)
Closing balance	1,828,872	2,446,996
Weighted average exercise price on closing balance	374.2	299.8

The share-based compensation charge in the profit and loss was £2,154,816 (31 May 2020: £1,946,725), of which £nil (31 May 2020: £8,541) 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 2021	LTIP November 2020	CSOP November 2020	LTIP October 2020	CSOP October 2020	Sharesave October 2020
Share price at date of grant (p)	1,972	2,410	2,410	2,455	2,455	2,040
Exercise price (p)	1,972	0.5	2,410	0.5	2,455	2,040
Expected time to expiry (years)	5.03	5.03	5.03	5.03	5.03	5.03
Risk-free interest rate (%)	1.61	1.32	1.32	1.34	1.34	1.37
Expected dividend yield on shares (%)	—	—	—	—	—	—
Expected volatility of share price (%)	52.63	53.19	53.19	52.84	52.84	52.70
Fair value of options granted (p)	921.7	2,409.5	1,126.5	2,454.5	1,142.0	947.7

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 Ocorian Limited (formerly Estera 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 339,459 Ordinary Shares. The Group funded the EBT £10,000,000 in September 2020 and the EBT purchased 415,834 Ordinary Shares from the market. The EBT had no other assets or liabilities at 31 May 2021 outside of its interest in 239,700 Ordinary Shares.

23. RELATED PARTY TRANSACTIONS

One shareholder receives 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			
	Expense paid 31 May 2021 £'000	Creditor balance 31 May 2021 £'000	Expense paid 31 May 2020 £'000	Creditor balance 31 May 2020 £'000
Connected party				
Chris Sawyer – royalties	470	—	14	—

FINANCIAL STATEMENTS

Notes to the financial statements continued for the year ended 31 May 2021

23. RELATED PARTY TRANSACTIONS CONTINUED GROUP AND COMPANY YEAR ENDED

	Change in value of loan expense paid 31 May 2021 £'000	Change in value of loan expense paid 31 May 2020 £'000
Connected party		
Contribution to EBT to purchase shares on market	10,000	—
Voluntary contribution to the Trust to repay outstanding loan balance during year ended 31 May 2021	(10,000)	—
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 2021 £'000	31 May 2020 £'000
Directors' emoluments (including bonus)	1,545	1,309
Aggregate gains on the exercise of share options	8,144	683
Non-Executive fees	158	125
Non-Executive consultancy fees	42	50

Consultancy fees are paid to Rockspring Ltd, a company in which David Gammon is a common director, amounting to £42k (2020: £50k). The amount outstanding at 31 May 2021 is £nil (2020: £5k).

24. FINANCIAL INSTRUMENT RISKS RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to various risks in relation to financial assets and liabilities. Financial assets and liabilities by category are summarised in note 20. The main types of risks are credit risk, currency risk and liquidity risk.

The Group's risk management is coordinated in close cooperation with the Board of Directors.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

Credit risk

The Group's exposure is limited to the carrying amount of financial assets and cash and cash equivalents recognised at the year-end date (as summarised in note 20).

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

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

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

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 2021			Consolidated year ended 31 May 2020			Company year ended 31 May 2021			Company year ended 31 May 2020		
	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	4	15,920	2,695	1	12,433	1,262	4	15,559	2,695	1	12,274	1,262

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

24. 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 2021 £'000	31 May 2020 £'000	31 May 2021 £'000	31 May 2020 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	1,934	2,108	1,935	2,112
Equity	1,380	1,148	1,388	1,158

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 2021				
Trade and other payables	13,011	827	9,219	—
At 31 May 2020				
Trade and other payables	12,017	963	8,237	—

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 2021				
Trade and other payables	16,862	827	9,219	—
At 31 May 2020				
Trade and other payables	12,050	963	8,237	—

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 2020 £'000	Cashflows	Other	31 May 2021 £'000
Current lease liabilities	1,337	(1,337)	1,419	1,419
Non-current lease liabilities	22,198	(2,068)	609	20,739
Total liabilities from financing activities	23,535	(3,405)	2,028	22,158

FINANCIAL STATEMENTS

Company statement of financial position as at 31 May 2021 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2021 £'000	Restated* 31 May 2020 £'000
Non-current assets			
Intangible assets	9	71,318	52,668
Property, plant and equipment	10	6,078	5,926
Right-of-use asset	11	21,108	22,732
Deferred tax asset	18	384	2,137
		98,888	83,463
Current assets			
Trade and other receivables	12	19,068	12,539
Current tax asset	16	5,682	2,374
Cash and cash equivalents	13	42,062	45,592
		66,812	60,505
Total assets		165,700	143,968
Current liabilities			
Trade and other payables	14	(19,603)	(13,702)
Lease liability		(1,419)	(1,337)
Deferred income	15	(2,138)	(1,390)
		(23,160)	(16,429)
Net current assets		43,652	44,076
Non-current liabilities			
Provisions	17	(41)	(27)
Lease liability		(20,739)	(22,198)
Deferred income	15	—	(185)
Other payables	14	(9,219)	(8,237)
		(29,999)	(30,647)
Total liabilities		(53,159)	(47,076)
Net assets		112,541	96,892
Equity			
Share capital	19	197	195
Share premium account		36,079	34,589
Equity reserve		(9,351)	(925)
Retained earnings		85,616	63,033
Total equity		112,541	96,892

* Restated for a presentation 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 £17,302k (2020: £15,971k).

These financial statements were approved by the Directors on 8 September 2021 and signed on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY

Company statement of cashflows for the year ended 31 May 2021

	31 May 2021 £'000	31 May 2020 £'000
Cash generated from operations	38,736	36,346
Taxes received	38	—
Cashflow from operating activities	38,774	36,346
Investing activities		
Purchase of property, plant and equipment	(1,375)	(666)
Expenditure on intangible assets	(31,502)	(21,044)
Interest received	48	240
Cashflow from investing activities	(32,829)	(21,470)
Financing activities		
Proceeds from issue of share capital	1,492	200
Employee Benefit Trust cash outflows from share purchases	(10,000)	—
Employee Benefit Trust cash inflows from option exercises	1,189	711
Payment of principal element of lease liabilities	(1,377)	(820)
Payment of interest element of lease liabilities	(691)	(731)
Interest paid	(88)	—
Cashflow from financing activities	(9,475)	(640)
Net change in cash and cash equivalents from continuing operations	(3,530)	14,236
Cash and cash equivalents at beginning of period	45,592	31,356
Exchange differences on cash and cash equivalents	—	—
Cash and cash equivalents at end of period	42,062	45,592

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2021 £'000	31 May 2020 £'000
Operating profit	19,952	16,732
Depreciation and amortisation	18,167	14,870
EBITDA	38,119	31,602
Movement in unrealised exchange gains on forward contracts	(223)	(91)
Share-based payment expenses	2,155	1,947
Operating cashflows before movements in working capital	40,051	33,458
Net changes in working capital:		
Change in trade and other receivables	(5,322)	(3,306)
Change in trade and other payables	3,993	6,180
Change in provisions	14	14
Cash generated from operations	38,736	36,346

Company statement of changes in equity for the year ended 31 May 2021

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 1 June 2019	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 exercises and lapses	—	—	(510)	510	—
EBT net cash inflows from option exercises	—	—	711	—	711
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
Profit for the year	—	—	—	20,810	20,810
Total comprehensive income for the year	—	—	—	20,810	20,810
Issue of share capital net of expenses	2	1,490	—	—	1,492
Share-based payment charges	—	—	2,155	—	2,155
Share-based payment transfer relating to option exercises and lapses	—	—	(1,770)	1,770	—
EBT cash outflows from share purchases	—	—	(10,000)	—	(10,000)
EBT net cash inflows from option exercises	—	—	1,189	—	1,189
Deferred tax movements posted directly to reserves	—	—	—	3	3
Transactions with owners	2	1,490	(8,426)	1,773	(5,161)
At 31 May 2021	197	36,079	(9,351)	85,616	112,541