

Frontier Developments plc

FY22 Financial Results

Frontier's game portfolio continues to thrive and expand

Frontier Developments plc (AIM: FDEV, 'Frontier', the 'Company', or the 'Group'), a leading developer and publisher of video games based in Cambridge, UK, publishes its full-year results for the 12 months to 31 May 2022 ('FY22').

Financial Highlights

	FY22 (12 months to 31 May 2022)	FY21 (12 months to 31 May 2021)	Year-on- year change (%)
Revenue	£114.0m	£90.7m	26%
Operating Profit	£1.5m	£19.9m	(92%)
EBITDA*	£41.1m	£38.1m	8%
Adjusted EBITDA**	£6.7m	£11.8m	(43%)
EPS (basic)	24.6p	55.4p	(56%)
Net Cash Balance at year end	£38.7m	£42.4m	(9%)

- The successful release of *Jurassic World Evolution 2*, together with the ongoing performance of our established portfolio of genre-leading games and our Foundry titles, delivered record revenue in FY22 of £114.0 million (growth of 26% over £90.7 million in FY21)
- Adjusted EBITDA** in FY22 was in line with expectations at £6.7 million (FY21: £11.8 million), with EBITDA* at £41.1 million (FY21: £38.1 million)
- Operating profit in FY22 was reduced to £1.5 million following the previously announced one-off non-cash accounting charge following the under-performance of the major *Elite Dangerous: Odyssey* expansion which released in May 2021 (FY21: £19.9 million)
- Cash resources remain strong with £38.7 million at 31 May 2022 (31 May 2021: £42.4 million). The £3.7 million reduction during FY22 reflected a greater investment in significant game developments for release in future years, working capital movements, and the £5.0 million purchase of shares by the Employee Benefit Trust undertaken in April 2022. Cash balances at 31 August 2022 were £53.1 million

*Earnings before interest, tax, depreciation and amortisation

** Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation charges related to game developments and Frontier's game technology, less investments in game developments and Frontier's game technology, and excluding share-based payment charges and other non-cash items

Operational & Strategic Highlights

Frontier's launch and nurture portfolio strategy continues to deliver

- Frontier plays to its strengths by creating deep, immersive and high-fidelity games using a strategic mix of in-house and licensed IP that builds on its proven capabilities and unique track record
- Post-launch, Frontier nurtures its games for many years through community engagement and additional content
- Our major game release in FY22, *Jurassic World Evolution 2* (November 2021), was the biggest sales contributor to FY22, and in June 2022, after the end of FY22, we successfully launched a major themed expansion alongside the *Jurassic World Dominion* film. *Jurassic World Evolution 2* has so far delivered over £60 million of revenue (as at 31 August 2022)
- Our portfolio of established titles which released before the start of FY22 each achieved material revenues in FY22, and each game continues to deliver sales and reach new players. *Planet Zoo* performed especially well in FY22 with an annual revenue sustain rate of 94%, supported by four new paid-downloadable content (PDLC) packs released in FY22, alongside free content
- In August 2022 we successfully released *F1® Manager 2022*. As expected, initial sales have been strong for this major new annual game franchise

Frontier Foundry achieves success

- Our games label for publishing carefully selected partner developments made good progress in FY22, with three new games released
- *Warhammer 40,000: Chaos Gate – Daemonhunters* has been our biggest Foundry title to date, releasing in May 2022, to a very positive reception
- Foundry is set for future success as a material part of our business with three more titles releasing in FY23

A strong portfolio and future roadmap

- Our existing portfolio of games and PDLC continues to perform well, supported by planned new PDLC for *Jurassic World Evolution 2* and *Planet Zoo*
- Initial sales for *F1® Manager 2022*, the first title in our annual Formula 1® management game series, have been strong and in line with our expectations, giving us further confidence as we continue to develop *F1® Manager 2023* (for release in FY24)
- Our first real-time strategy game, using *Warhammer Age of Sigmar* IP licensed from Games Workshop® will launch in FY24
- We are already in development for a new title for FY25, as well as early-stage scoping for another new game in FY26

Current Trading and Outlook

We have achieved a pleasing start to FY23. Our existing portfolio continues to perform, with *Jurassic World Evolution 2* benefitting from our themed PDLC and the hype around the Jurassic World Dominion film in June 2022, and *Planet Zoo* also seeing new PDLC. Our major new game release in FY23, *F1® Manager 2022*, launched a few weeks ago on 30 August, and initial sales have been strong, as expected. Foundry looks set for a good year with ongoing sales from *Warhammer 40,000: Chaos Gate – Daemonhunters* and three more titles to come in FY23.

Based on trading performance to date, the Board remains confident of delivering on current analyst expectations for FY23.

Over the medium term, the Board expects Frontier to continue to grow revenue by around 20% on average per annum, with any annual growth rate variability largely driven by the timing and scale of new releases in each year.

Jonny Watts, CEO from 10 August 2022, said:

“Our team did a terrific job during FY22 and we were delighted to achieve record annual revenue with growth of 26%. In the last 12 months we have successfully released three new games with each achieving chart-topping success; Jurassic World Evolution 2 in November 2021; Warhammer 40,000: Chaos Gate – Daemonhunters (a Foundry title) in May 2022; and F1® Manager 22, which released just a few weeks ago at the end of August. We have three more exciting titles coming in FY23 from Foundry, as well as PDLC for Jurassic World Evolution 2 and Planet Zoo. For FY24 we have two more major internally developed titles – our Warhammer Age of Sigmar real-time strategy game, and F1® Manager 23. We look forward with confidence based on our strong existing portfolio, and our exciting roadmap of new releases which includes unrevealed future developments.”

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 as amended by The Market Abuse (Amendment) (EU Exit) Regulations 2019. The person responsible for making this announcement on behalf of the Company is Alex Bevis.

Enquiries:

Frontier Developments

+44 (0)1223 394 300

Jonny Watts, CEO
David Braben, President and Founder
Alex Bevis, CFO

Liberum - Nomad and Joint Broker
Neil Patel / Cameron Duncan

+44 (0)20 3100 2000

Jefferies - Joint Broker
Max Jones / William Brown

+44 (0)20 7029 8000

Tulchan Communications
Matt Low / Mark Burgess / Alex Dart

+44 (0)20 7353 4200

About Frontier Developments plc

Frontier is a leading independent developer and publisher of videogames founded in 1994 by David Braben, co-author of the iconic Elite game. Based in Cambridge, Frontier uses its proprietary COBRA game development technology to create innovative genre-leading games, primarily for personal computers and videogame consoles. As well as self-publishing internally developed games, Frontier also publishes games developed by carefully selected partner studios under its Frontier Foundry games label.

Frontier's LEI number: 213800B9LGPWUAZ9GX18.

www.frontier.co.uk

Chairman's Statement – David Gammon

In FY22 we achieved record revenue for the second consecutive year, growing by 26%. This was achieved through the strength in depth of our portfolio and the success of new titles, most notably *Jurassic World Evolution 2*. Our most recent new game release, *F1® Manager 2022*, launched successfully at the end of August and is set to deliver a substantial contribution in FY23.

As ever, our financial success is a testament to the talent and hard work of our great team of people. I'd like to thank everyone at Frontier for their dedication and teamwork, continuing to support our games, our players and each other.

I believe our chosen business model and strategy – developing, launching and nurturing genre-leading games which best fit our expertise and competitive advantages – will continue to deliver long-term value to our stakeholders. We have an exciting roadmap of future content alongside our existing portfolio.

As announced on 10 August, in December 2022 I will be retiring from Frontier's Board after 10 years, most of which I have spent as Chairman. I am privileged to have been a witness to the success of Frontier's transition from a third-party developer to a publisher of its own titles. I am delighted to be passing my Chairman responsibility to the excellent David Wilton, who joins our Board as Non-Executive Director and Chairman Designate on 22 September 2022.

The news of my planned retirement has coincided with the announcement of another significant Board change. On 10 August 2022, Frontier's Founder, David Braben, who has been CEO since the foundation of the Company in 1994, passed the CEO baton to his long-time colleague, and proven deliverer of multiple genre-leading games, Jonny Watts, our former Chief Creative Officer. David will continue to add huge strategic value to Frontier in his new role of President and Founder. He will remain an Executive Director on the Board.

As CEO, Jonny has assumed responsibility for day-to-day management of the business and delivery of Frontier's operational and longer-term strategic plans. I am looking forward to seeing Jonny now take the Company on to even greater success.

On 10 August 2022 we also announced two further Board-related changes, with James Dixon stepping up to become Chief Operating Officer (an Executive Director position on the Board), and Jessica Bourne promoted to General Counsel and Company Secretary, taking on company secretarial responsibilities from our Chief Financial Officer, Alex Bevis.

Our Board has always benefitted from a diverse membership of highly experienced, capable and motivated individuals. I believe the changes we have announced in the last 12 months, including the appointment of the terrific Ilse Howling as a Non-Executive Director in March 2022, have, and will, strengthen it even further.

It is with sadness that I sign off my last Chairman's Statement for Frontier's Annual Report. I'd like to thank David Braben for his entrepreneurial brilliance and support throughout my tenure. I cannot thank my Board colleagues enough for letting me watch, learn at and chair their meetings. I leave Frontier in a confident mood with a very talented senior leadership team. I look forward to watching Frontier's continued growth and evolution!

Chief Executive Officer's Statement – David Braben (CEO for FY22, President and Founder from 10 August 2022)

Our great teams have worked hard and successfully delivered another great year. It has been a year of change – with Frontier adapting successfully to new working practices and moving into new adjacent game genres – while growing and delivering great new games like *Jurassic World Evolution 2*. Revenue was up by 26% year-on-year, and headcount grew by over 25% - which is a real investment, increasing our development firepower for future titles.

Hybrid working

During FY22 we emerged from the 2020 and 2021 Covid-19 restrictions of home working and into the new mixed model of hybrid working of in the office and at home. Our diverse teams of people were able to connect with each other both virtually and in person, with the ability once again to use our splendid studio facility. I feel those opportunities to reconnect are important for people's personal development and wellbeing, as well as being important for successful delivery of our complex content.

Like many companies we are still refining the new ways of remote and hybrid working, but we believe we are getting the balance right, which puts us in a strong position to continue to deliver great games and content which benefits all of our stakeholders. We put a lot of effort into fostering team engagement through communication and social opportunities. In July 2022 we held our biggest ever party, which saw almost 900 people (staff plus partners/families) attend a summer event which celebrated all of our games with themed zones.

Our people

We saw record numbers of people join us during the last 12 months, with net headcount growing by 158 people or over 25% during FY22. The benefit of this increased headcount will help us grow in future years. Growing and investing in our people is a crucial element of our strategy, and like many companies we have experienced strong competition for talent, which when combined with the negative impact of coronavirus on staff engagement and connectivity has created some challenges for staff retention. We continue to believe that our sophisticated and diverse portfolio of genre-leading games, together with our self-publishing business model and our competitive reward packages, provides an attractive home for talent, but of course we can never be complacent and we will continue to review opportunities to improve our offering.

Our players

Our players have continued to support us, and the wonderful communities around each of our games have continued to grow, with total all-time base game unit sales having increased by over 30% in the period. Though there is some overlap between our different titles, many of these are new players joining these communities for the first time. These communities continue to evolve over the years - many players have been members of the *Elite Dangerous* community for around 10 years since it started in 2012, while other communities, like that for *F1® Manager* are still in their early stages. I would like to thank all our players for their continued support, and we look forward to many further adventures together in the future.

Our portfolio

FY22 saw the delivery of great games and content from our teams, most notably with *Jurassic World Evolution 2* releasing in November 2021 and *Planet Zoo* benefitting from four new PDLC packs during the financial year. The success of these new releases, when combined with our existing portfolio, drove a 26% growth in revenue to a record £114.0 million in FY22, and we are well set to deliver another record performance in FY23.

Our teams have delivered more great content already in FY23, with the *Jurassic World Evolution 2: Dominion Biosyn Expansion* releasing in June 2022 alongside Universal Pictures and Amblin Entertainment's *Jurassic World Dominion* film, another excellent PDLC pack for *Planet Zoo*, and a major new game release through the launch of *F1® Manager 2022* at the end of August 2022 (all after the end of FY22). I am particularly pleased with initial player engagement with *F1® Manager 2022*, since this is a major new sports franchise for Frontier, with annual titles scheduled for at least the next three years (2023, 2024 and 2025).

As previously reported, the one area of disappointment in FY22 was the lower than expected level of player engagement with our major *Elite Dangerous: Odyssey* expansion. Our team did a terrific job with that very ambitious expansion, which made the decision to cancel future console development and to focus our attention on PC even more difficult. We are supporting and growing our *Elite Dangerous* player community and will build on the narrative aspects of *Elite Dangerous* during FY23.

During FY22 our team working on our *Warhammer Age of Sigmar* real-time strategy game made good progress, and we look forward to bringing that game to market in FY24. Looking a little further out, we have now started development of a new internal title for FY25 and are scoping out another new game for FY26.

I think it's fair to say that we have our strongest ever release line-up, supported by our superb existing portfolio. Looking further out into 2023 and beyond, I am delighted to say that we continue to have even more great game opportunities.

Frontier Foundry

Frontier Foundry is our own games label for third-party publishing, which leverages our publishing capability, industry experience, commercial partnerships and financial resources to supplement our own development roadmap by partnering with other high-quality developers to bring more games to market. We take a developer-led approach to publishing, benefitting from our long and varied experience of being a developer under a variety of different business models.

Foundry released three titles in FY22, with *Warhammer 40,000: Chaos Gate – Daemonhunters* quickly becoming our biggest selling Foundry title to date. Our approach to third-party publishing is resonating well with our existing and potential new partners. We have three games releasing from Foundry in FY23, *Stranded: Alien Dawn* (from Haemimont Games), *Deliver Us Mars* (from KeokeN Interactive) and *The Great War: The Western Front* (from Petroglyph Games), and we continue to expect Foundry to build and become a material part of our overall business over time.

Our strategy and business model

We have a repeatable business model of releasing and supporting high-quality games in under-served genres where we have relevant experience, and where there is a reasonable expectation of our title becoming the dominant game in that sector. We build a community around the title, and continue to support it with free and paid content over many years, to create the longevity we have already seen with our existing titles, and hope to see with those in the future. We will use our key expertise and where applicable valuable external IP to deliver highly differentiated, best-in-class player experiences. Frontier's games are set in rich environments and take a long time to fully master, thereby yielding longevity and great value for players. This long-term engagement and loyalty of our passionate player communities will help further build the Company over the long term.

We believe that publishing our own games, and selectively those of other high-quality development studios, is the best way to maximise the benefit of our core skills, our assets and our COBRA game development technology platform. The Company's focus is on identifying, developing and delivering top-quality titles with long play times.

We will continue to follow our repeatable model to support our games over many years with new releases and updates to create long-term sustainable growth which benefits all of our key stakeholders, through successfully publishing a growing portfolio of games. To achieve our strategic objective, we focus on three key areas:

- our portfolio strategy for our internal developments;
- our strategy for our Foundry games label; and
- our people strategy

This third key area is crucial for our long-term success. We must continue to grow and invest in our teams so that we can continue to support our existing games while also increasing the frequency of major new releases. The increase in the number of releases supporting our existing games, such as major PDLC launches, helps to smooth revenue, but major releases of new games are still a significant factor in the revenue stream, as we have just seen with *Jurassic World Evolution 2* in FY22 and we are seeing with *F1® Manager 2022* in FY23.

We are growing our portfolio, and consequently we are increasing our development, publishing and other teams to enable us to support additional games while generating new updates for our existing titles. We will continue to grow our resources and capability to enable us to scale-up the number of major releases we are able to deliver each year. This will not require us to increase our workforce linearly because supporting an existing title typically requires fewer staff than creating a new one.

Board changes

As previously announced, after over 28 years as Frontier's CEO, in August 2022 I changed my role to become President and Founder. The excellent Jonny Watts has taken over as CEO, taking over the day-to-day Company activities, many of which he has already been doing. I will remain at Frontier, and will still be actively involved, retaining oversight and involvement in strategic direction and key external relationships.

I'd like to say a massive thank you to David Gammon, our departing Chairman, and a big welcome to David Wilton, our new Chairman. This will be my last CEO's Statement in our Annual Report, and I'd just like to thank everyone at Frontier and all of our partners and stakeholders, for your support over my many decades as Frontier's CEO. I will be actively engaged with Frontier for the foreseeable future, so you will still hear from me on a regular basis.

Chief Financial Officer's Statement – Alex Bevis

The combination of ongoing contributions from our existing titles (games which released in earlier financial years), the significant sales delivered by new game *Jurassic World Evolution 2*, and revenue achieved by our Foundry games label resulted in a record revenue performance in FY22 of £114.0 million, 26% ahead of the preceding financial year (FY21: £90.7 million).

Our strategy of developing, launching and nurturing genre-leading games continues to deliver financial performance for our shareholders, financial returns and audience expansions for our IP partners, compelling content for our players, and engaging and challenging projects for our people.

Adjusted EBITDA*, a measure of cash operating profit whereby game development costs are expensed as they are incurred, was in line with expectations in FY22 at £6.7 million (FY21: £11.8 million). The year-on-year reduction reflects greater investment in significant game developments for release in future years, including *F1® Manager 2022* which successfully released in August 2022 (in FY23), and our *Warhammer Age of Sigmar* real-time strategy game for FY24.

Due to the lower than expected engagement with *Elite Dangerous: Odyssey* on PC, and the decision to cancel further console development of this major expansion, the *Elite Dangerous: Odyssey* capitalised intangible asset was fully amortised in FY22, resulting in an additional one-off impairment charge of £7.4 million.

This non-cash accounting adjustment had no impact on cashflow, cash balances or Adjusted EBITDA, but reduced operating profit as reported under IFRS to £1.5 million (FY21: £19.9 million).

Frontier continues to benefit from a strong balance sheet, with total cash balances at 31 May 2022 of £38.7 million (31 May 2021: £42.4 million) and balances of £53.1 million at 31 August 2022. The small reduction in cash during FY22 reflected a greater investment in significant game developments for release in future years, and the £5.0 million purchase of shares by the Employee Benefit Trust undertaken in April 2022 to satisfy future share option exercises by employees.

* Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation charges related to game developments and Frontier's game technology, less investments in game developments and Frontier's game technology, and excluding share-based payment charges and other non-cash items

Trading

Jurassic World Evolution 2

FY22 benefitted from the release of another successful new Frontier title, *Jurassic World Evolution 2*, which has continued to attract an expanding player base since its launch in November 2021. By 31 May 2022 *Jurassic World Evolution 2* had achieved over 1.3 million base game units sold across all platforms and formats, excluding base game digital downloads through Microsoft's Game Pass subscription service, through which the base game became available on 17 May 2022.

The development and release of paid-downloadable content (PDLC) and free content has, as usual, been an important element of our strategy in continuing to engage and entertain existing *Jurassic World Evolution 2* players while attracting new ones. We saw strong uptake of the three separate PDLC packs available as at 31 May 2022.

In June 2022, after the end of FY22, we saw strong engagement with our compelling new PDLC, the *Jurassic World Evolution 2: Dominion Biosyn Expansion*, which released alongside Universal Pictures and Amblin Entertainment's *Jurassic World Dominion* film. This major new expansion for *Jurassic World Evolution 2* delivered a strong start for FY23, and additional PDLC will be released during FY23.

Jurassic World Evolution 2 had so far delivered over £60 million of total cumulative revenue as at 31 August 2022, a period covering its first 10 months from release.

Our existing game portfolio

Our portfolio of internally developed titles which released before FY22 – *Elite Dangerous*, *Planet Coaster*, *Jurassic World Evolution* and *Planet Zoo* – continues to reach new audiences, and each delivered material revenues in FY22. Most notably, *Planet Zoo* performed especially well, with an annual revenue sustain rate of 94% (FY22 vs. FY21), supported by four new PDLC packs releasing in FY22, alongside free content. We have new PDLC packs for *Planet Zoo* in FY23.

As previously reported, following the launch of the major *Odyssey* expansion in May 2021, *Elite Dangerous* revenue in FY22 fell below our original expectations. We are focussing on supporting and growing our player community, and will build on the narrative aspects of *Elite Dangerous* during FY23.

Frontier Foundry

Alongside our internally developed titles, Frontier Foundry, our games label for publishing carefully selected partner developments, made good progress in FY22, with three new game releases.

Our most recent Frontier Foundry title, *Warhammer 40,000: Chaos Gate – Daemonhunters*, received a very positive reception at its launch on 5 May 2022. It quickly became our most successful Frontier Foundry title to date, with performance above expectations.

We have three more Frontier Foundry titles planned for release in FY23, and we continue to expect Frontier Foundry to become a material part of our business.

Financial Performance

Our record revenue of £114.0 million in FY22 (FY21: £90.7 million) delivered a record gross profit of £73.6 million (FY21: £63.2 million) with gross margin of 65% (FY21: 70%). Our gross margin percentage tends to vary across different periods based on five factors: the split of own-IP versus licensed IP game revenue (since licensing IP attracts royalty costs), the proportion of revenue from Foundry (which tends to attract developer royalties), variations in commission rates on digital stores (for example Steam versus Epic), revenue from subscription models such as Microsoft's Game Pass, and the proportion of revenue derived from the sale of physical discs. The reduction in our gross margin percentage in FY22 versus FY21 was mainly the result of a higher proportion of sales from licensed IP games, most notably through the release of *Jurassic World Evolution 2*.

Gross research and development (R&D) expenses in the period grew by 37% to £47.5 million (FY21: £34.9 million). The substantial year-on-year growth reflected our continued investment to support our growth strategy through three main areas: investment in our team including significant headcount growth; investment in our portfolio through greater outsourcing activity which allows our internal teams to focus on the most value-adding development work; and investment in Frontier Foundry development partner projects. Outsourced work for our *F1® Manager 2022* game was particularly significant, driven by the need to deliver a large volume of assets to support the modelling of 22 race circuits and their surrounding environments. We'll be able to leverage that investment across our future *F1® Manager* titles.

Capitalisation of costs for game development related intangible assets, together with continued investment in our leading game technology, accounted for £35.2 million in the period (FY21: £27.8 million). Costs related to the development of new chargeable Frontier or Foundry content, or the development of technology to support new content, are typically capitalised, subject to the usual criteria set out under accounting standard IAS 38. Development costs associated with the development or support of existing products are generally expensed as incurred. Costs capitalised in FY22 represented 74% of gross R&D expenditure which is broadly consistent with prior periods (FY21: 80%, FY20: 80%).

Amortisation and impairment charges for game developments and Frontier's game technology related intangible assets grew significantly to £33.9 million in total for the period (FY21: £14.9 million), with *Elite Dangerous: Odyssey* accounting for the majority of the increase.

Amortisation charges for the *Elite Dangerous: Odyssey* expansion accounted for £8.4 million in FY22. Additionally, a one-off, non-cash impairment charge of £7.4 million was recorded in FY22, which resulted from lower than expected engagement with *Elite Dangerous: Odyssey* on PC following its launch in May 2021, and the decision to cancel further console development of this major expansion.

New games and PDLC content released in FY22 was also a factor in the year-on-year growth in the total amortisation charge, with the launch of *Jurassic World Evolution 2*, three Foundry titles, and PDLC packs for *Planet Zoo* and *Jurassic World Evolution 2*.

Net research and development expenses recorded in the income statement, being gross spend, less capitalised costs, plus amortisation and impairment charges, increased to £46.2 million in FY22 (FY21: £22.0 million). The

substantial rise reflected a combination of our increased investment in newly released and future content, together with the large one-off, non-cash *Elite Dangerous: Odyssey* charge.

Sales, marketing and administrative expenses grew to £25.9 million in FY22 (FY21: £21.2 million) as a result of greater investment in marketing to support the launch of *Jurassic World Evolution 2*, our major new game release in the year, new Foundry titles, and our existing game portfolio including new PDLC releases and price promotion events.

Overall net operating expenditure in FY22 grew to £72.1 million (FY21: £43.2 million) with higher costs across all three areas: R&D, sales and marketing, and administration. The *Elite Dangerous: Odyssey* charge was also a large factor in the increase. After taking account of that charge, operating profit as reported under IFRS was reduced to £1.5 million (FY21: £19.9 million).

Adjusted EBITDA*, a measure of cash operating profit whereby game development costs are expensed as they are incurred, was in line with expectations in FY22 at £6.7 million (FY21: £11.8 million). The year-on-year reduction reflects greater investment in significant game developments for release in future years, including *F1® Manager 2022* which successfully released in August 2022 (in FY23), and our *Warhammer Age of Sigmar* real-time strategy game for FY24.

During FY21, Frontier elected into HMRC's Patent Box regime and made a Patent Box claim on patent-related profits from FY19 onwards. Patent Box has delivered future benefits in FY21 and FY22, including in the form of enhancements to the value of tax losses carried forward to future periods. The full effect of the benefits of the Patent Box claim will therefore be realised through cash tax benefits in the future.

Frontier also benefits from enhanced corporate tax deductions on certain expenditures under the Video Games Tax Relief (VGTR) scheme and under the R&D tax credits scheme, both of which help to reduce taxable profits. Frontier also benefitted during the period from tax deductions related to employee share option gains. The combination of the enhanced tax deductions on expenditures and share option tax deductions in the period, together with tax adjustments for prior periods, generated a corporation tax credit of £8.7 million in the income statement in FY22 (FY21: £2.4 million).

Profit after tax for FY22 was £9.6 million (FY21: £21.6 million) and basic earnings per share was 24.6p (FY21: 55.4p).

Balance sheet and cashflow

We continue to benefit from a strong balance sheet, with £38.7 million of cash at 31 May 2022 (31 May 2021: £42.4 million) and £53.1 million at 31 August 2022. The £3.7 million reduction during FY22 reflected a greater investment in significant game developments for release in future years, working capital movements, and the £5.0 million purchase of shares by the Employee Benefit Trust undertaken in April 2022.

Our intangible asset values include game technology, internal game developments, Frontier Foundry game developments, third-party software and IP licences. Total intangible assets actually reduced slightly during the period to £70.8 million at 31 May 2022 (31 May 2021: £71.3 million). Significant investments in new content and technology were offset by total amortisation and impairment charges of £15.8 million for *Elite Dangerous: Odyssey*. Our investments in the period related to our own internally developed titles, including new content for our existing portfolio, our technology, and support for our Frontier Foundry partner developments.

Tangible assets relate mainly to IT equipment and the fit-out of the leased office facility, which the Company occupied in April 2018. The net balance at 31 May 2022 was £6.6 million (31 May 2021: £6.1 million).

Following the adoption of IFRS 16 "Leases" effective for Frontier from 1 June 2019, the Company's balance sheet at 31 May 2022 includes a right-of-use asset valued at £19.5 million (31 May 2021: £21.1 million) for the Company's lease over its headquarters office building in Cambridge. A similar figure (the difference related to timing of actual rental payments) of £20.7 million at 31 May 2022 (31 May 2021: £22.2 million) is recorded on the balance sheet as a lease liability, split between current and non-current liabilities.

Trade and other receivables due within one year totalled £24.7 million at 31 May 2022 (31 May 2021: £13.7 million) with the majority of the balance related to gross revenue due from digital distribution partners. The year-on-year increase reflected strong sales activity and content releases towards the end of FY22, including the launch of *Warhammer: Chaos Gate – Daemonhunters* in May 2022, and amounts due for *Jurassic World Evolution 2* entering Microsoft's Game Pass subscription service in May 2022.

Trade and other payables due within one year totalled £21.8 million at 31 May 2022 (31 May 2021: £14.8 million), being mostly made up of distribution platform commissions, IP licence royalties and developer royalties due on the sales transactions not yet settled, and bonus costs and other staff-related accruals. The increase in liabilities reflected the strong trading performance towards the end of the financial year, as mentioned above.

Within non-current liabilities (amounts due after 12 months) a balance of £6.1 million is held at 31 May 2022 (31 May 2021: £9.2 million) which includes IP licence costs for the minimum guaranteed royalties payable on the licences with Formula 1® and Games Workshop®.

The current tax asset balance as at 31 May 2022 of £7.9 million (31 May 2021: £6.5 million) relates to the filed tax returns, including VGTR claims, for FY21, and the draft tax returns for FY22. In July 2022, £4.0 million was received from HMRC related to the FY21 tax returns.

The net balance for deferred tax assets less deferred tax liabilities recorded as at 31 May 2022 totalled £1.3 million (31 May 2021: £0.4 million). Deferred tax assets and liabilities have been recorded as at 31 May 2022 for the estimated values of temporary differences, and the potential value of tax deductions relating to future share option exercises. A deferred tax asset valued at £1.0 million was recognised as at 31 May 2022 for carried forward tax losses from the *Jurassic World Evolution 2* VGTR income stream. The recognition of this asset is based on a high level of certainty that the accumulated losses will be utilised against the taxable profits projected to be generated in FY23 and FY24 by *Jurassic World Evolution 2*.

Frontier's tax arrangements concerning income streams under VGTR and Patent Box enhancements can be complex, and as at 31 May 2022 there was insufficient certainty concerning the utilisation of other tax losses to create any other deferred tax assets related to accumulated losses. Frontier's total unrecognised tax losses as at 31 May 2022 were £50.2 million (31 May 2021: £55.1 million).

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2022

		12 months to 31 May 2022	12 months to 31 May 2021
	Notes	£'000	£'000
Revenue	3	114,032	90,688
Cost of sales		(40,420)	(27,538)
Gross profit		73,612	63,150
Research and development expenses		(46,179)	(22,025)
Sales and marketing expenses		(12,339)	(7,269)
Administrative expenses		(13,558)	(13,940)
Operating profit		1,536	19,916
Net finance costs		(592)	(731)
Profit before tax		944	19,185
Income tax	4	8,684	2,373
Profit for the year attributable to shareholders		9,628	21,558
Earnings per share			
Basic earnings per share	5	24.6	55.4
Diluted earnings per share	5	23.7	53.3

All the activities of the Group are classified as continuing.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2022

	12 months to 31 May 2022	12 months to 31 May 2021
	£'000	£'000
Profit for the year	9,628	21,558
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(19)	23
Total comprehensive income for the year attributable to the equity holders of the parent	9,609	21,581

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 31 MAY 2022***(REGISTERED COMPANY NO: 02892559)*

	Notes	31 May 2022 £'000	31 May 2021 £'000
Non-current assets			
Intangible assets	6	70,833	71,318
Property, plant and equipment		6,640	6,078
Right-of-use asset		19,484	21,108
Deferred tax asset		1,348	384
Total non-current assets		98,305	98,888
Current assets			
Trade and other receivables		24,705	13,741
Current tax asset		7,867	6,468
Cash and cash equivalents		38,699	42,423
Total current assets		71,271	62,632
Total assets		169,576	161,520
Current liabilities			
Trade and other payables		(21,797)	(14,768)
Lease liability		(1,461)	(1,419)
Deferred income		(2,466)	(2,180)
Total current liabilities		(25,724)	(18,367)
Net current assets		45,547	44,265
Non-current liabilities			
Provisions		(56)	(41)
Lease liability		(19,278)	(20,739)
Other payables		(6,148)	(9,219)
Total non-current liabilities		(25,482)	(29,999)
Total liabilities		(51,206)	(48,366)
Net assets		118,370	113,154
Equity			
Share capital		197	197
Share premium account		36,468	36,079
Equity reserve		(12,769)	(9,351)
Foreign exchange reserve		(18)	1
Retained earnings		94,492	86,228
Total equity		118,370	113,154

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2022

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
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	–
Employee Benefit Trust cash outflows from share purchases	–	–	(10,000)	–	–	(10,000)
Employee Benefit Trust 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
Profit for the year	–	–	–	–	9,628	9,628
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(19)	–	(19)
Total comprehensive income for the year	–	–	–	(19)	9,628	9,609
Issue of share capital net of expenses	–	389	–	–	–	389
Share-based payment charges	–	–	2,452	–	–	2,452
Share-based payment transfer relating to option exercises and lapses	–	–	(1,376)	–	1,376	–
Employee Benefit Trust cash outflows from share purchases	–	–	(5,000)	–	–	(5,000)
Employee Benefit Trust net cash inflows from option exercises	–	–	506	–	–	506
Deferred tax movements posted directly to reserves	–	–	–	–	(2,740)	(2,740)
Transactions with owners	–	389	(3,418)	–	(1,364)	(4,393)
At 31 May 2022	197	36,468	(12,769)	(18)	94,492	118,370

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

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2022

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Profit before taxation	944	19,185
<i>Adjustments for:</i>		
Depreciation and amortisation	32,199	18,167
Impairment of intangible assets	7,398	–
Movement in unrealised exchange losses/(gains) on forward contracts	474	(223)
Share-based payment expenses	2,452	2,155
Interest expense	–	88
Interest received	(57)	(48)
Payment of interest element of lease liabilities	649	691
Research and Development Expenditure Credit (RDEC)	(375)	–
<i>Working capital changes:</i>		
Change in trade and other receivables	(10,964)	(1,233)
Change in trade and other payables	4,465	119
Change in provisions	15	15
Cash generated from operations	37,200	38,916
Taxes received	3,956	38
Net cash flows from operating activities	41,156	38,954
Investing activities		
Purchase of property, plant and equipment	(2,500)	(1,375)
Expenditure on intangible assets	(36,243)	(31,502)
Interest received	57	48
Net cash flows used in investing activities	(38,686)	(32,829)
Financing activities		
Proceeds from issue of share capital	389	1,492
Employee Benefit Trust cash outflows from share purchases	(5,000)	(10,000)
Employee Benefit Trust cash inflows from option exercises	506	1,189
Payment of principal element of lease liabilities	(1,419)	(1,377)
Payment of interest element of lease liabilities	(649)	(691)
Interest paid	–	(88)
Net cash flows used in financing activities	(6,173)	(9,475)
Net change in cash and cash equivalents from continuing operations	(3,703)	(3,350)
Cash and cash equivalents at beginning of year	42,423	45,751
Exchange differences on cash and cash equivalents	(21)	22
Cash and cash equivalents at end of year	38,699	42,423

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

NOTES TO THE FINANCIAL INFORMATION

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 AND STATEMENT OF COMPLIANCE

The financial information contained in this preliminary announcement of audited results does not constitute the Group's statutory accounts for the years ended 31 May 2022 and 31 May 2021. The accounts for the year ended 31 May 2021 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 May 2022 have been reported on by the Company's auditors. The report on these accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain any statement under section 498(2) or (3) of the Companies Act 2006 or equivalent preceding legislation.

The statutory accounts for the year ended 31 May 2022 are expected to be posted to shareholders in due course and will be delivered to the Registrar of Companies after they have been laid before the shareholders in a general meeting on 8 November 2022. Copies will be available from the registered office of the Company, 26 Science Park, Milton Road, Cambridge CB4 0FP and will be accessible on the Frontier Developments website, <https://www.frontier.co.uk>. The registered number of Frontier Developments plc is 02892559.

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 UK-adopted IASs. The financial information has been prepared on the basis of all applicable IFRSs, including all IASs, Standing Interpretations Committee (SIC) interpretations and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) that are applicable to the financial period.

Except for the application of UK-adopted IASs, for which there are no material differences from IFRSs as issued by the IASB and adopted by the EU when applied to the Group, accounting policies have been applied consistently to all years presented unless otherwise stated.

The financial information has been prepared on a going concern basis under the historical cost convention, except for financial instruments held at fair value. The financial information is presented in Sterling, the presentation and functional currency for the Group and Company. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Going concern basis

The Group 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 period to 30 November 2023 ('the going concern period'). The Group and Company therefore continue to adopt the going concern basis in preparing their financial statements.

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 2022 of £38.7 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 and the current macroeconomic conditions arising from the ongoing Ukraine crisis. 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 2023.

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.

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 2023. The financial statements for the year ended 31 May 2022 are therefore prepared under the going concern basis.

3. 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 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.

Other revenue mainly related to royalty income in both FY22 and FY21.

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Publishing revenue	113,555	90,471
Other revenue	477	217
Total revenue	114,032	90,688
Cost of sales	(40,420)	(27,538)
Gross profit	73,612	63,150
Research and development expenses	(46,179)	(22,025)
Sales and marketing expenses	(12,339)	(7,269)
Administrative expenses	(13,558)	(13,940)
Operating profit	1,536	19,916
Net finance costs	(592)	(731)
Profit before tax	944	19,185
Income tax	8,684	2,373
Profit for the year attributable to shareholders	9,628	21,558

4. TAXATION ON ORDINARY ACTIVITIES

The major components of the income tax credit for FY22 and FY21 are:

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Consolidated income statement		
Current tax:		
Credit in respect of current year	(3,471)	(2,512)
Adjustments in respect of prior years	(1,509)	(1,616)
Total current tax	(4,980)	(4,128)
Deferred tax:		
(Credit)/charge in respect of current year	(4,507)	684
Adjustments in respect of prior years	552	1,071
Relating to changes in tax rates	251	–
Total deferred tax	(3,704)	1,755
Total taxation credit reported in the income statement	(8,684)	(2,373)

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Consolidated equity		
Deferred tax related to items recognised in equity during the year:		
Net change in share option exercises	2,740	(3)

Reconciliation of total tax credit at statutory tax rates:

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Profit on ordinary activities before taxation	944	19,185
Tax on profit on ordinary activities at standard statutory tax rate 19% (2021: 19%)	179	3,652
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	80	13
Adjustments in respect of prior years	(957)	(545)
Tax rate benefit on surrender of tax losses	(850)	(415)
Losses on which deferred tax previously not recognised	(878)	–
Research and development tax credits	–	(816)
Video Games Tax Relief enhanced deductions on which credits claimed	(3,864)	(2,430)
Benefit of Patent Box	(2,665)	(1,430)
Deferred tax not recognised	20	(402)
Effect of changes in tax rate	251	–
Taxation credit	(8,684)	(2,373)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. At the balance sheet date, deferred taxes have therefore been measured using the tax rate at the date that the deferred tax asset or liability unwinds of 19–25% (31 May 2021: 19%).

For FY22 the Group has recorded a total corporation tax credit of £8.7 million (FY21: £2.4 million). The Group benefits from the enhanced tax deductions available from the Video Games Tax Relief (VGTR) scheme. The Group

also benefits from the Patent Box relief that reduced the taxable profits for *Jurassic World Evolution*, *Jurassic World Evolution 2* and *Planet Zoo* during the year.

The Group recognised a prior year adjustment of £957k during the year as a result of *Jurassic World Evolution 2*'s Video Games Tax Relief claim in the final FY21 corporation tax return after receiving the final certificate from the British Film Institute (BFI) in March 2022, in which the surrender of losses were carried forward.

The tax rate benefit on surrender of tax losses of £850k is the additional 6% tax benefit received in respect of surrendering the current year losses for the VGTR tax credit at 25% for the following trades: *Elite Dangerous*, *F1® Manager 2022* and *Warhammer Age of Sigmar*.

Due to the increased certainty of the *Jurassic World Evolution 2* forecast for FY23 and FY24, the Group recognised a deferred tax asset of £878k in respect of the £4.6 million of losses carried forward for this VGTR trade.

The Group claimed research and development tax relief under the Small or Medium-sized Enterprise (SME) scheme in FY21. The Group elected into the Research and Development Expenditure Credit (RDEC) scheme in FY22. The Research and Development (R&D) tax credit in FY22 is offset against and recognised in research and development expenses. The tax charge applied to R&D tax credit is currently included within the deferred tax assets, which is due to the Group making a taxable loss in FY22.

During the year, deferred tax not recognised relates to the tax effected tax saving on the employee share scheme deduction of £78k, netting off with the unrecognised tax losses movement of £58k for trades other than *Jurassic World Evolution 2*. The movement on employee share scheme deduction of £78k is the deferred tax movement of £306k posted to the income statement at a tax rate of 19%, less the current tax deduction of £228k. Unrecognised tax losses movement of £58k is the net of £5.0 million brought forward losses now utilised and the £4.7 million current year loss carried forward, tax effected at 19%.

The losses do not have an expiry date.

5. 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.

	12 months to 31 May 2022	12 months to 31 May 2021
Profit attributable to shareholders (£'000)	9,628	21,558
Weighted average number of shares	39,172,987	38,909,932
Basic earnings per share (p)	24.6	55.4

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.

	12 months to 31 May 2022	12 months to 31 May 2021
Profit attributable to shareholders (£'000)	9,628	21,558
Diluted weighted average number of shares	40,606,756	40,471,633
Diluted earnings per share (p)	23.7	53.3

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

	12 months to 31 May 2022	12 months to 31 May 2021
Weighted average number of shares	39,172,987	38,909,932
Dilutive effect of share options	1,433,769	1,561,701
Diluted average number of shares	40,606,756	40,471,633

6. 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 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
Additions	2,724	32,496	330	–	35,550
Disposals	–	(222)	–	–	(222)
At 31 May 2022	19,733	129,393	2,390	11,185	162,701
Amortisation and impairment					
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
Amortisation charges	2,115	24,360	424	1,738	28,637
Impairment charge	–	7,398	–	–	7,398
Disposals	–	(222)	–	–	(222)
At 31 May 2022	9,173	77,970	1,651	3,074	91,868
Net book value at 31 May 2022	10,560	51,423	739	8,111	70,833
Net book value at 31 May 2021	9,951	50,685	833	9,849	71,318

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.

The Group recognised an impairment loss of £7.4 million during FY22 in respect of *Elite Dangerous: Odyssey* as a result of lower than expected engagement with *Elite Dangerous: Odyssey* on PC following its launch in May 2021 and the decision to cancel further console development of this major expansion. The value in use recoverable amount of *Elite Dangerous: Odyssey* at 31 May 2022 is £nil (31 May 2021: no impairment charge) using a pre-tax discount rate of 9% (31 May 2021: 9%). No reasonable possible change in key assumptions for other intangible assets would result in an impairment charge.

7. KEY PERFORMANCE INDICATORS – NON STATUTORY MEASURES

In addition to measures of financial performance derived from IFRS reported results – revenue, operating profit, operating profit margin percentage, earnings per share and net cash balance – Frontier publishes, and provides commentary on, financial performance measurements derived from non-statutory calculations. Frontier believes these supplementary measures, when read in conjunction with the measures derived directly from statutory financial reporting, provide a better understanding of Frontier's overall financial performance.

EBITDA

EBITDA, being earnings before tax, interest, depreciation and amortisation, is commonly used by investors when assessing the financial performance of companies. It attempts to arrive at a 'cash profit' figure by adjusting operating profit for non-cash depreciation and amortisation charges. In Frontier's case, EBITDA does not provide a clear picture of the Group's cash profitability, as it adds back amortisation charges relating to game developments, but without deducting the investment costs for those developments, resulting in a profit measure which does not take into account any of the costs associated with developing games. Since EBITDA is a commonly used financial performance measure, it has been included below for the benefit of readers of the accounts who may value that measure of performance.

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Operating profit	1,536	19,916
Depreciation and amortisation	32,199	18,167
Impairment of intangible assets	7,398	-
EBITDA	41,133	38,083

Adjusted EBITDA

Frontier also discloses an Adjusted EBITDA measure which, in the Company's view, provides a better representation of 'cash profit' than EBITDA. Adjusted EBITDA for Frontier is defined as earnings before interest, tax, depreciation and amortisation charges related to game developments and Frontier's game technology, less investments in game developments and Frontier's game technology, and excluding share-based payment charges and other non-cash items. This effectively provides the cash profit figure that would have been achieved if Frontier expensed all game development investment as it was incurred, rather than capitalising those costs and amortising them over several years.

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Operating profit	1,536	19,916
Add back non-cash intangible asset amortisation charges for game developments and Frontier's game technology	26,475	14,896
Add back non-cash intangible asset impairment charge for game developments	7,398	-
Deduct capitalised investment costs in game developments and Frontier's game technology	(35,220)	(27,793)
Add back non-cash depreciation charges	3,562	2,847
Add back non-cash movements in unrealised exchange losses/(gains) on forward contracts	474	(223)
Add back non-cash share-based payment expenses	2,452	2,155
Adjusted EBITDA	6,677	11,798

Research and development (R&D) expenses

Research and development (R&D) expenses recorded in Frontier's income statement are arrived at after capitalising game development costs and after recording amortisation charges for games which have been released. Similar to the principles of the Adjusted EBITDA measure showing financial performance as if all game development investments were expensed as incurred, Frontier provides commentary on the difference between gross R&D expenses (before capitalisation/amortisation) and net R&D expenses (after capitalisation/ amortisation). The net R&D expenses figure aligns with the R&D expenses recorded in the income statement, whereas the gross R&D expenses figure provides a better representation of 'cash spend' on R&D activities.

	12 months to 31 May 2022 £'000	12 months to 31 May 2021 £'000
Gross R&D expenses	47,526	34,922
Capitalised investment costs in game developments and Frontier's game technology	(35,220)	(27,793)
Amortisation charges for game developments and Frontier's game technology	26,475	14,896
Impairment of intangible assets	7,398	—
Net R&D expenses	46,179	22,025