

13 September 2023

Frontier Developments plc

FY23 Financial Results

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 ended 31 May 2023 ('FY23'). This announcement contains inside information.

Financial Highlights

	FY23 (12 months to 31 May 2023)	FY22 (12 months to 31 May 2022)
Revenue	£104.6m	£114.0m
EBITDA*	£33.0m	£41.1m
Adjusted EBITDA**	(£4.6m)	£6.7m
Operating (loss)/profit	(£26.6m)	£1.5m
EPS (basic)	(53.6p)	24.6p
Cash balance at year end	£28.3m	£38.7m

- Revenue of £104.6 million (FY22: £114.0 million) was achieved through the ongoing performance of games which released in earlier financial years, sales from *F1® Manager 2022* which released in August 2022, and modest contributions from new Foundry titles released during the period.
- Adjusted EBITDA** was a loss of £4.6 million (FY22: profit of £6.7 million), reflecting lower revenues achieved in FY23 versus the prior period and investment in titles for release in future years as Frontier gears up to deliver two new game releases per financial year from FY24 onwards.
- Operating profit in FY23 was negatively impacted by £28.7 million of non-cash intangible asset impairment and accelerated amortisation charges resulting from the closure of Foundry and a prudent re-assessment of the overall future performance of the *F1® Manager* franchise following lower than expected initial sales of *F1® Manager 2023*. The incremental non-cash charges resulted in an operating loss of £26.6 million in the period (FY22: profit of £1.5 million).
- Frontier continues to be well capitalised, with a cash balance at the end of FY23 (on 31 May 2023) of £28.3 million and £24.8 million as at the end of August 2023. The net cash outflow of £10.4 million in FY23 was after outflows of £10.9 million for the acquisition of Complex and £3.0 million for the purchase of shares in the Employee Benefit Trust. Cash would have grown in FY23 if the acquisition and share purchases are disregarded.

*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 impairment charges, share-based payment charges and other non-cash items.

Operational & Strategic Highlights

A thriving and growing game portfolio

- Frontier's post-launch nurturing strategy delivered another strong performance in FY23, with games released before the start of the financial year delivering 72% of the total revenue in the period.
- *Jurassic World Evolution 2*, created in collaboration with Universal Products & Experiences and released in November 2021, was the biggest revenue contributor in the portfolio for FY23, benefitting from new content in the period including two major PDLC packs inspired by Universal Pictures and Amblin Entertainment's *Jurassic World* franchise.
- In August 2022 Frontier further expanded its portfolio with the release of *F1® Manager 2022*, the first title in an annual series of *Formula 1®* management games, which sold over 800,000 units in FY23.

- The second annual title in the *Formula 1*® series, *F1*® *Manager 2023*, released in July 2023 (in FY24). This second iteration of the series has achieved good reviews and a positive reception from players, although initial sales were lower than expected.
- Support for *F1*® *Manager 2023* continues whilst plans for *F1*® *Manager* in 2024 are developed.
- In November 2023, Frontier's first entry into the popular real-time strategy (RTS) genre will be released. *Warhammer Age of Sigmar: Realms of Ruin*, set within Games Workshop's globally popular Warhammer IP, gives unique perspectives on the in-game action with unprecedented visual fidelity, and introduces an innovative control system to the proven gameplay mechanics of the genre, allowing console players to fully experience the RTS genre for the first time.
- Frontier has a strong position in the creative management simulation (CMS) genre, and development of further CMS games continues – the first is on track for release in FY25, with another title now in development for release in FY26.

First acquisition

- In November 2022, Frontier added a new development team through the acquisition of experienced game development studio Complex Games Inc. (Complex). This followed the successful collaboration between Complex and Frontier on the development and publication of the turn-based strategy game *Warhammer 40,000: Chaos Gate – Daemonhunters*, the biggest selling title in the portfolio of games published by Foundry.
- The acquisition has created a core development footprint for Frontier in Canada, a region with an extensive and growing talent pool for video game development, and the team is in the process of scaling-up to support future growth.
- Integration activities and growth plans for Complex are on track, and the acquisition delivered modest accretive financial benefits in FY23, as expected.

Closure of Frontier Foundry

- In June 2023 Frontier confirmed the closure of its third-party publishing label, Frontier Foundry (Foundry), following the completion of a strategic review.
- The decision has already enabled a heightened level of operational focus to be applied to Frontier's own internally developed portfolio of titles.

Current Trading and Outlook

We have achieved a solid start to FY24, which began on 1 June 2023, through the ongoing performance of the existing portfolio over the summer.

The release of *F1*® *Manager 2023* in July 2023 has so far not delivered the expected sales contribution, but any revenue shortfall in FY24 is expected to be offset by continued strong performance across the rest of the portfolio, as well as confirmed but as yet unannounced additional revenue streams, including for *F1*® *Manager 2023*.

The big new game release for FY24 is still to come, with *Warhammer Age of Sigmar: Realms of Ruin* scheduled for release in November 2023. Our marketing campaign for launch kicked off strongly with our presence at Gamescom at the end of August.

The Board continues to be comfortable with market expectations for FY24, with consensus revenue at £108 million and consensus Adjusted EBITDA* loss of £9 million.

The Board is confident that the Company can return to attractive levels of financial performance over the medium-term, based on the strength of its existing portfolio and planned new releases, underpinned by the refocusing of its strategy.

* 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 impairment charges, share-based payment charges and other non-cash items.

Jonny Watts, CEO, said:

"I would like to thank our team of over 900 people who have worked tirelessly over the past year and beyond to deliver great content to our players. The last twelve months has been a challenging time for Frontier, and as we approach our 30th birthday we have drawn on that longevity and success to refine our strategy. I am confident that the heightened focus we are applying to project selection and development priorities will return us to attractive levels of financial performance. We'll shortly be entering the RTS genre with the release of Warhammer Age of Sigmar: Realms of Ruin in November, and I look forward to the reaction from our players."

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.

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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.

Frontier's LEI number: 213800B9LGPWUAZ9GX18.

www.frontier.co.uk

Chairman's Statement

It has been an interesting and eventful time at Frontier. I joined the Board on 22 September 2022 and became Chairman at the start of December 2022, succeeding David Gammon, who had been Chairman for 10 years. My thanks go to my predecessor for his significant contribution to the evolution of Frontier throughout his tenure. There have been several other changes to the Board with Jonny Watts becoming Chief Executive Officer and David Braben moving to the role of President and Founder in August 2022. Alongside those changes, James Dixon stepped up to join the Board as Chief Operating Officer and Jessica Bourne was promoted to the role of General Counsel and Company Secretary. More recently, on 1 June, Charles Cotton retired as a Non-Executive Director after nearly seven years on the Board, and I thank him for his contribution. On the same day, Leslie-Ann Reed joined the Board as Non-Executive Director and Chair of the Audit Committee.

I have long admired Frontier and the games it develops and publishes, and I am honoured to have been asked to join the team. I believe in Frontier's strategy to Select, Develop, Launch, & Nurture genre-leading games that best fit Frontier's expertise and competitive advantages to deliver long-term value to our stakeholders.

The financial year that ended 31 May 2023 was a challenging one. In January 2023 we announced a reset of our revenue expectations following a lower-than-expected sales contribution from *F1® Manager 2022*, the general sales underperformance across the portfolio during the Christmas holiday period, and the poorer than expected performance of the Foundry games. Subsequently, we took the difficult decision to cease all activity relating to acquiring new third-party titles within Foundry. We took this opportunity to refocus and reset, with all of the Group's efforts on Frontier's own internally developed portfolio of titles.

For FY23 we are reporting a loss before interest and taxation of £26.6 million after incremental non-cash charges totalling £28.7 million relating to the closure of Foundry and a cautious assessment of the future performance of the *F1® Manager* franchise following the initial underperformance of *F1® Manager 2023* which released in July 2023.

The Board is confident that the Company can return to attractive levels of financial performance over the medium-term, based on the strength of its existing portfolio and planned new releases.

Frontier is a people business. We have a team of talented people who work hard to develop and publish our games. I am very grateful to them for their dedication and commitment. We now have more than 900 people, some of whom are working in the studio, some remotely and others on a hybrid basis. In common with many businesses post-pandemic, we are constantly considering how best to operate to safeguard and accommodate the preferences of our people while efficiently managing the business. For the first time we have had people join us through acquisition, when on 1 November 2022 we completed the acquisition of developer Complex Games. I welcome all our new joiners to the Frontier team.

We want to ensure that the Board's time and expertise is utilised to support the strategic development of the Group. We consider updates on industry developments and market trends. The Board takes its governance responsibilities very seriously. The structures and processes we have in place are summarised in this Annual Report. We are placing increasing emphasis on environmental, social, and governance (ESG) matters to ensure we have the right framework in place to enable our business to operate in a sustainable and responsible way.

I would like to thank all our stakeholders, including our people, our players, and our shareholders, for their support.

Chief Executive Officer's Statement

I was delighted to step up to the role of CEO in August 2022, having worked with David Braben and the team at Frontier for many years. I continue to be amazed every day by what our talented teams are able to deliver – we have terrific people and an exceptional culture of quality and creativity.

Since I took up the baton from David last summer, our Board and our senior management team have been investing more time in reviewing our future plans. We are conscious that our financial performance over the last two years has not been good enough, and although there is always room for improvement on project execution and operational delivery, I firmly believe that the majority of our financial challenges have been driven by some of the decisions that we collectively made over the last five to six years, which did not always result in the expected financial outcomes for the Company. Foundry is an obvious recent example of this, where our financial and operational investments across seven diverse, externally developed games over a four-year period did not deliver a positive return.

With a greater focus on decision making, particularly around project selection, the good news is that we remain very positive about the internal project decisions that we have taken in the last two to three years. In particular, we are excited about the upcoming release of *Warhammer Age of Sigmar: Realms of Ruin* and the own-IP creative management simulation game we are developing for release in FY25.

I am delighted to announce that we are now starting work on a further creative management simulation game for release in FY26, a genre where we have a strong track record.

Game selection

In January 2024 we'll be celebrating 30 years since David Braben founded Frontier in 1994. That has provided the perfect context in which to look back at our games, and re-evaluate what makes a 'Frontier' game when it comes to our project selection decisions.

Analysing our successes, and also where we have had our greatest challenges, we have defined four project selection pillars: Strategic, Experience, Gameplay, and Longevity.

1. Strategic – we need to be strategic in our selection process. We seek out opportunities to achieve 'first' or 'best' status in viable, currently under-served, market segments where we can be the top title in that segment. We choose projects which build upon existing IP, Frontier experience or technology. We aim to select projects which have strong potential to be profitable within one month of launch and to achieve 100% return on investment within one year. So far, we have achieved this with open-world simulations of galaxies, rollercoasters, zoos, and dinosaurs.
2. Experience – it is all about the player's experience. We want to deliver a game which is authentic and accurate to its subject matter, and to nurture or engage with existing communities around those games. We provide non-linear emergent gameplay, with player-enhanced experiences and player-led narratives. We seek an engaging and satisfying player onboarding experience both at launch and post-release.
3. Gameplay – we make sophisticated and challenging games that provide player agency and choice. We offer deeply rewarding playstyles, with multiple options for problem-solving. To support the principles of 'easy to pick up, challenging to master', our games have layered complexity.
4. Longevity – we seek to provide open-ended experiences, with the potential for substantial, sustainable, and profitable post-release content. We nurture our games post-release with ongoing live project support, often through both free and paid content. We enjoy making games that offer creative building, especially where communities of players can share their creations. We aim to support competitive and cooperative play and socialisation both in and out of game. We actively seek to create hooks that keep our communities engaged.

Our game genres

These four game selection pillars align strongly with our most successful segment, which we call creative management simulation (CMS). We consider ourselves to be leaders in CMS games, as evidenced by our success with *Planet Coaster*, *Planet Zoo*, *Jurassic World Evolution* and *Jurassic World Evolution 2*. This is a market space where we know we can find opportunities to deliver genre-leading games, and we will continue to focus on this segment. We are in full development for a CMS game for release in FY25 and we have another CMS game scheduled for FY26.

Alongside our strategy for CMS games, we will continue to expand into carefully selected new genres, with a focus on segments which share characteristics with the CMS genre and which therefore align closely to the four selection pillars.

Our *F1® Manager* game series, being an annual sport management game, leverages our CMS expertise. We delivered a solid first game with *F1® Manager 2022*, with over 850,000 units sold. For *F1® Manager 2023*, which released in July 2023, initial sales have been below the level achieved by the first game, despite good reviews and a positive reception from players. We continue to support *F1® Manager 2023* as we develop our plans for *F1® Manager* in 2024.

Looking ahead to November 2023, I am excited about the release of *Warhammer Age of Sigmar: Realms of Ruin*, our first foray into the real-time strategy genre. We are pleased with the early pre-release reaction to the game and are excited to continue to work to build real-time strategy into a strategic pillar for the Company.

We were pleased to welcome the team from Complex Games, developers of *Warhammer 40,000: Chaos Gate – Daemonhunters*, to Frontier in November 2022 through our first acquisition. Their expertise in turn-based strategy games has given us a strong entry into another new genre, which we are already working to build upon.

The final genre is open-world space simulation. With *Elite Dangerous*, our first self-published game which fully released on PC in December 2014, we captured the imagination of space simulation fans around the world. After nearly 10 years since its first public beta, we have greatly exceeded the original vision for the game.

Our people

During FY23 we grew our headcount through both the 800 and the 900 people milestones, finishing with 915 people as at 31 May 2023, across all of our teams. Organic growth is as strong as ever, with over 230 people choosing to join us during the period, and a further 18 people joining us from Complex Games through the acquisition we completed in November 2022.

Growing and investing in our people is a crucial element of our strategy, as we seek to both nurture and expand our game portfolio. For some of our development teams that means growth in terms of both headcount and capability, and over time we will look to increase the number of our development teams in order to grow the number of projects that we can support at any one time.

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 hub for talent.

In the last few years, engagement and communication has emerged as an important element of our people strategy, which was vital during the pandemic and with the emergence of hybrid and remote working as new models of collaboration. It's important that everyone across Frontier understands and is excited by our current projects and our future plans, so we invest time in communicating to everyone across the studio through regular internal livestreams, along with offering regular opportunities to celebrate, socialise and learn.

I'd like to take the opportunity to thank everyone at Frontier for their hard work and support during the year.

Our players

Our players continue to respond positively to the content that we provide to them, through new game releases, free content and updates, and paid content like PDLC packs. Our publishing strategy is very much community focused – we aim to identify, create and nurture communities of players for each of our titles. That aim is best supported where we have opportunities to provide engaging new content, with *Planet Zoo* and *Jurassic World*

Evolution 2 being particularly good examples of that in FY23, with multiple packs releasing for each title during the period.

We were pleased to add a new player community in the last 12 months, with the release of *F1® Manager 2022* in August 2022 and *F1® Manager 2023* which released in July 2023.

We are currently in the midst of creating what we hope will be another big new community of players, with *Warhammer Age of Sigmar: Realms of Ruin* scheduled for release in November 2023.

As ever, we remain very much player focused, since ultimately all of our success is dependent on what we deliver and how we deliver to our target audiences, and I would like to thank all our players for their continued support.

Our shareholders

Our financial performance over the last two financial years has been disappointing, and I'd like to thank our shareholders for their patience and support during what has been a challenging time for us. We continue to believe that we have a solid strategic plan, with a pipeline of releases which will get us back on track to deliver the sustainable and growing revenue and profitability that we should be able to achieve with our world-class team of people.

Chief Financial Officer's Statement

Overview

FY23 revenue of £104.6 million (FY22: £114.0 million) was delivered through a solid performance from the existing portfolio of games (released prior to 1 June 2022), which accounted for 72% of revenue during the financial year, together with contributions from games released during the period. *Jurassic World Evolution 2*, which released in November 2021 through collaboration with Universal Products & Experiences, was the strongest performer in the portfolio, with revenue in its first 18 months exceeding the performance of the first *Jurassic World Evolution* game during its first 18 months. *F1® Manager 2022* was the leading revenue generator amongst new games, selling over 800,000 units in its first nine months following its release in late August 2022 up to the end of the financial year on 31 May 2023.

Adjusted EBITDA*, a measure of cash profitability, was a loss of £4.6 million in FY23 (FY22: profit of £6.7 million), which reflects the decrease in revenue, an increase in costs, and continued investment in future games as Frontier gears up to deliver two new game releases per financial year from FY24 onwards.

* 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 impairment charges, share-based payment charges and other non-cash items.

Operating profit as reported under IFRS was adversely impacted by non-cash intangible asset impairment and accelerated amortisation charges totalling £28.7 million in the year arising from two events: the underperformance and subsequent closure of Foundry, and a prudent re-assessment of the future financial performance of the *F1® Manager* franchise following a lower than expected initial sales contribution from *F1® Manager 2023* which released in July 2023, after the end of the financial year.

These non-cash intangible asset impairment and accelerated amortisation charges led to an operating profit before those adjustments of £2.1 million becoming a reported operating loss of £26.6 million. The non-cash intangible asset impairment and accelerated amortisation charges had no impact on cashflow, cash balances or Adjusted EBITDA.

In November 2022 Frontier added a new development team with the acquisition of experienced game development studio Complex Games Inc. (Complex), following the successful collaboration between Complex and Frontier on the development and publication of turn-based strategy game *Warhammer 40,000: Chaos Gate – Daemonhunters*. Integration activities and growth plans for Complex are on track, and the acquisition delivered modest accretive financial benefits in FY23, as expected.

Frontier continues to be well capitalised, with total cash balances on 31 May 2023 of £28.3 million (31 May 2022: £38.7 million) and £24.8 million on 31 August 2023. The reduction in cash during FY23 reflected a greater investment in significant game developments for release in future years, £10.9 million for the acquisition of Complex, and the £3.0 million purchase of shares by the Employee Benefit Trust undertaken in May 2023 to satisfy future share option exercises by employees. Cash would have grown in FY23 if the acquisition and share purchases are disregarded.

We're confident that our renewed and proven strategy of selecting, developing, launching, and nurturing genre-leading games will get us back on track in terms of our financial performance.

Our existing game portfolio

Our portfolio of titles which released before FY23 – *Elite Dangerous*, *Planet Coaster*, *Planet Zoo*, *Jurassic World Evolution*, *Jurassic World Evolution 2* and *Warhammer 40,000: Chaos Gate – Daemonhunters* – continues to reach new audiences, and each delivered material revenues in FY23. *Jurassic World Evolution 2* and *Planet Zoo* performed especially well, each supported by four new PDLC packs releasing in FY23, alongside free content. In FY24 new PDLC packs and free content for both *Jurassic World Evolution 2* and *Planet Zoo* have already been released, with more planned during this financial year.

Jurassic World Evolution 2 was the strongest performer in the portfolio, with revenue in its first 18 months exceeding the performance of Frontier's all-time leading revenue generator, the first *Jurassic World Evolution* game, during its first 18 months.

F1® Manager

FY23 benefited from the release of another new Frontier game in late August 2022, *F1® Manager 2022*, the first annual title in a major new sports franchise for Frontier. By 31 May 2023 *F1® Manager 2022* had achieved over 800,000 units sold across all platforms and formats, with strong engagement at release. This level of sales was a solid performance for the first game in the series but was below Frontier's original expectations.

Our second title in the series, *F1® Manager 2023*, released after the end of the financial year in July 2023. Sales during the pre-order phase for *F1® Manager 2023* were below the level achieved by *F1® Manager 2022*, and although the sales performance post-launch has been more encouraging, the current revenue projections for *F1® Manager 2023* in FY24 are now below the level achieved by *F1® Manager 2022* in FY23. The Company will continue to build on the more positive recent sales trends, including through support of the title through the remainder of the 2023 F1® season. We are currently developing our plans for *F1® Manager* in 2024.

As part of the annual audit process for FY23 we reviewed the carrying values of our intangible assets across the portfolio, with a particular focus on the *F1® Manager* series due to the performance of both *F1® Manager 2022* and *F1® Manager 2023*. Following a prudent re-assessment of the overall future performance of the *F1® Manager* franchise a non-cash impairment charge of £15.0 million was recorded in the FY23 financial statements against the intangible assets relating to the franchise.

Foundry

Foundry is Frontier's game label for publishing games developed by external partners.

Financial performance across the Foundry game portfolio has been disappointing and, overall, the business has not delivered Frontier's expectations of a positive return on investment within the first year of each title.

As a result of this financial underperformance, and an increased level of competition amongst third-party publishers, in June 2023 Frontier announced the decision to cease all activity relating to acquiring new third-party titles and instead re-focus on internal titles.

This decision has enabled an increased level of operational focus to be applied to Frontier's own internally developed portfolio of titles, which has delivered a strong return on investment. Foundry games which have already been released will continue to be supported, including those in active post-release development.

The disappointing financial performance of games published under the Foundry games label resulted in non-cash intangible asset impairment and accelerated amortisation charges totalling £13.7 million being recorded in FY23, with £10.6 million being accelerated amortisation charges reflecting the relatively steep decline of Foundry game sales post-release compared with the more sustained trends for Frontier developed games, together with Foundry game asset impairments totalling £3.1 million.

Complex Games

In November 2022 Frontier added a new development team with the acquisition of experienced game development studio Complex Games, following the successful collaboration between Complex and Frontier on the development and publication of turn-based strategy game *Warhammer 40,000: Chaos Gate – Daemonhunters*, which is the biggest selling game published under the Foundry games label.

Founded in 2001 by Noah Decter-Jackson and Adrian Cheater, Complex has over 21 years of experience in a wide variety of game genres and platforms. The studio is based in Winnipeg, in the Canadian Province of Manitoba, and at acquisition Complex employed 18 talented people, primarily developers. As at 31 August 2023 the team had grown to 25.

The acquisition, which is Frontier's first, supports Frontier's strategic objectives through the creation of a core development footprint for Frontier in, Canada, a region with an extensive and growing talent pool for video game development. Frontier intends to grow the development team in Winnipeg to support future growth.

Having worked closely during the development and launch of *Warhammer 40,000: Chaos Gate – Daemonhunters*, the acquisition had been de-risked through a deep mutual understanding and alignment of the culture, ability and

ambition of the two companies, and the closer collaboration achieved by the acquisition has enabled Complex and Frontier to more effectively nurture *Warhammer 40,000: Chaos Gate – Daemonhunters*.

In the medium to long term, the growing development team in Winnipeg will add to Frontier's game portfolio through the application of Frontier's Select, Develop, Launch, & Nurture strategy, which will support Frontier's continued delivery of sustainable and profitable growth.

Frontier acquired 100% of the shares in Complex for an upfront cash consideration of CAD\$13.3 million (£8.4 million). Conditional deferred cash consideration of up to CAD\$5.2 million (£3.3 million) will be payable subject to Complex meeting certain operational milestones during the period to 31 December 2023. In addition, the four employee shareholders - the two founders and the two studio principals - will participate in a five-year profit-share cash earn-out scheme, which aligns with Frontier's strategy to Select, Develop, Launch, & Nurture new games developed by the Winnipeg studio.

The total maximum upfront and deferred consideration of up to CAD\$18.4 million (£11.7 million) will be funded from Frontier's existing cash resources. The additional profit-share earn-out of up to CAD\$11.8 million (£7.5 million) payable annually over five years to the four employee shareholders will be funded from future cash profits generated from games developed by the Winnipeg studio.

Net identifiable assets and liabilities on acquisition totalled net assets of £1.2 million and fair value adjustments in respect of assets identified through the purchase price allocation (PPA) process totalled £2.9 million. This resulted in a goodwill balance of £7.7 million being recognised on the consolidated statement of financial position on acquisition. Further information is included in note 9 of the financial statements.

Integration activities and growth plans for Complex are on track, and the acquisition delivered modest accretive financial benefits in FY23, as expected.

Following Foundry activity ceasing, the operations of Complex, including *Warhammer 40,000: Chaos Gate – Daemonhunters* and future games developed, will be reclassified into our portfolio of internally developed titles.

Financial performance

FY23 revenue of £104.6 million fell short of our record revenue of £114.0 million in FY22 following the underperformance of *F1® Manager 2022* against original expectations, the general sales underperformance across the portfolio during the Christmas holiday period and disappointing sales for Foundry games. As a result of this, gross profit decreased to £67.3 million (FY22: £73.6 million) with a gross profit margin of 64% (FY22: 65%). The small reduction in our gross profit margin percentage in FY23 versus FY22 was mainly due to subscription deals, which do not attract commission payable, representing a higher proportion of revenue in FY22 than in FY23.

Gross research and development (R&D) expenses in the period grew by 11% to £52.9 million (FY22: £47.5 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; the staff costs in respect to Complex Games from November 2022; and investment in Foundry development partner projects.

Development costs for supporting Foundry games in FY23 were £9.6 million, representing 18% of total gross R&D investment. Following the decision to cease activities for any new games for Foundry, there will be a significant reduction in this spend in FY24, although post-release development funding and support are being provided in FY24 for *Stranded: Alien Dawn* and *The Great War: Western Front*.

Capitalisation of costs for game development related intangible assets, together with continued investment in our leading game technology, accounted for £37.6 million in the year (FY22: £35.2 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 FY23 represented 71% of gross R&D expenditure which was similar to FY22 (74%).

Amortisation and impairment charges for intangible assets related to game developments and Frontier's game technology grew to £52.6 million in total for the year (FY22: £33.9 million) including the additional one-off non-cash Foundry intangible asset impairment and accelerated amortisation charges of £13.7 million and the *F1® Manager*

non-cash impairment charge of £15.0 million. In the prior year, FY22, a one-off, non-cash impairment charge of £7.4 million was recorded for *Elite Dangerous: Odyssey*.

For FY24 the Company has reviewed and updated its approach to intangible asset identification and amortisation following the incremental accounting charges suffered in FY22 and FY23. As a result of this review, intangible assets related to games and PDLC which release after 1 June 2023 will be amortised more rapidly in the first 12 months following their release, through the adoption of a steeper amortisation charge profile than the previous default method of straight-line amortisation. This updated approach will not impact Adjusted EBITDA, which is a measure of cash profit, but it may have a short-term adverse impact on reported operating profit in FY24 as we transition from the previous amortisation profile to the updated model. Updated amortisation profiles were applied in FY23 to Foundry games which released in the period and to the *F1® Manager* game franchise.

Net research and development expenses recorded in the consolidated income statement, being gross spend, less capitalised costs, plus amortisation and impairment charges, increased to £67.9 million in FY23 (FY22: £46.2 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 Foundry and *F1® Manager* intangible asset impairment and accelerated amortisation charges.

Sales, marketing, and administrative expenses remained largely the same at £26.1 million in FY23 (FY22: £25.9 million) as a result of sustained investment in marketing to support the launch of *F1® Manager 2022*, our major new game release in the year, new Foundry titles, and our existing game portfolio, including new PDLC releases and price promotion events, as well as slightly higher administration costs due to the continued growth of the business.

Overall, net operating expenditure in FY23 grew to £93.9 million (FY22: £72.1 million), mainly as a result of higher net research and development expenses, along with the additional non-cash intangible asset impairment and accelerated amortisation charges of £28.7 million which were due to the financial performance of Foundry and the *F1® Manager* series. After taking account of those charges, this resulted in an operating loss as reported under IFRS of £26.6 million (FY22: profit of £1.5 million).

Adjusted EBITDA*, a measure of cash profitability whereby game development costs are expensed as they are incurred, was in line with the expectations set in January 2023, being a loss of £4.6 million (FY22: profit of £6.7 million). The year-on-year reduction reflected the decrease in revenue, an increase in costs, and continued investment in future games as Frontier gears up to deliver two new game releases per financial year from FY24 onwards.

On corporation tax, Frontier continues to benefit strongly from HMRC incentive schemes, specifically Video Games Tax Relief (VGTR), R&D tax credits and Patent Box. Frontier receives enhanced corporate tax deductions on certain expenditures under the VGTR and R&D tax credit schemes, both of which help to reduce taxable profits.

Frontier elected into HMRC's Patent Box regime in FY21, making claims for patent-related profits from FY19 onwards. Patent Box has delivered benefits from FY21 onwards, 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 benefited 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 £5.6 million in the consolidated income statement in FY23 (FY22: £8.7 million).

Loss after tax for FY23 was £20.9 million (FY22: profit of £9.6 million) and the basic loss per share was 53.6p (FY22: earnings per share of 24.6p).

Balance sheet and cashflow

We are well capitalised, with £28.3 million of cash at 31 May 2023 (31 May 2022: £38.7 million) and £24.8 million at 31 August 2023. The £10.4 million reduction in cash during FY23 reflected a greater investment in significant game developments for release in future years, working capital movements, £10.9 million for the acquisition of Complex, and the £3.0 million purchase of shares by the Employee Benefit Trust undertaken in May 2023. Cash would have grown in FY23 if the acquisition and share purchases are disregarded.

Goodwill relates wholly to the acquisition of Complex Games in November 2022, with a balance of £7.2 million at 31 May 2023 following a £0.5 million exchange rate movement in the period (31 May 2022: £nil).

Our other intangible asset values include game technology, internal game developments, Foundry game developments, third-party software, and IP licences. Total other intangible assets decreased during the year to £57.0 million at 31 May 2023 (31 May 2022: £70.8 million) as a result of the Foundry and *F1® Manager* intangible asset charges. Our investments in the year related to our own internally developed titles, including new content for our existing portfolio, our technology, and support for our Foundry partner developments. Those investments in new content and technology were more than offset by amortisation and impairment charges which included the one-off £28.7 million adjustment for Foundry and *F1® Manager* 2023.

Property, plant and equipment relate mainly to IT equipment and the fit-out of the leased studio facility, which the Group has occupied from April 2018. The net balance at 31 May 2023 was £5.7 million (31 May 2022: £6.6 million).

Following the adoption of IFRS 16 “Leases” effective for Frontier from 1 June 2019, the consolidated statement of financial position at 31 May 2023 includes a right-of-use asset valued at £17.9 million (31 May 2022: £19.5 million) for the Group’s lease over its headquarters studio building in Cambridge. A similar figure (the difference related to timing of actual rental payments) of £19.3 million at 31 May 2023 (31 May 2022: £20.7 million) is recorded on the consolidated statement of financial position as a lease liability, split between current and non-current liabilities.

Trade and other receivables due within one year totalled £15.6 million at 31 May 2023 (31 May 2022: £24.7 million) with the majority of the balance related to gross revenue due from digital distribution partners. The year-on-year decrease primarily relates to higher revenue in the final months of FY22 versus FY23, which included *Jurassic World Evolution 2* entering Microsoft’s Game Pass subscription service in May 2022.

Trade and other payables due within one year totalled £16.5 million at 31 May 2023 (31 May 2022: £21.8 million), being mostly made up of distribution platform commissions, IP licence royalties and developer royalties due on the sales transactions not yet settled, and other staff-related accruals. The decrease in liabilities largely relates to the year-end revenue variances mentioned above and the absence of a bonus provision being included at 31 May 2023 due to the minimum bonus performance payout not being achieved.

Within non-current liabilities (amounts due after 12 months) a balance of £4.2 million is held at 31 May 2023 (31 May 2022: £6.1 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 at 31 May 2023 of £9.4 million (31 May 2022: £7.9 million) relates to the filed tax returns, including VGTR claims, for FY22, and the draft tax returns for FY23. In June 2023, £3.9 million was received from HMRC related to the FY22 tax returns.

The net balance for deferred tax assets less deferred tax liabilities recorded at 31 May 2023 was a liability £0.4 million (31 May 2022: £1.3 million asset). Deferred tax assets and liabilities have been recorded at 31 May 2023 for the estimated values of temporary differences, the potential value of tax deductions relating to future share option exercises, and a portion of carried forward tax losses in the Group.

The Group’s tax arrangements concerning income streams under VGTR and Patent Box enhancements can be complex, and at 31 May 2023 there was insufficient certainty concerning the utilisation of other tax losses to create any other deferred tax assets related to accumulated losses. The Group’s total unrecognised tax losses as at 31 May 2023 were £80.2 million (31 May 2022: £50.2 million).

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2023

	Notes	12 months to 31 May 2023 £'000	12 months to 31 May 2022 £'000
Revenue	3	104,575	114,032
Cost of sales		(37,230)	(40,420)
Gross profit		67,345	73,612
Research and development expenses		(67,857)	(46,179)
Sales and marketing expenses		(12,012)	(12,339)
Administrative expenses		(14,056)	(13,558)
Operating (loss)/profit		(26,580)	1,536
Net finance income/(costs)		71	(592)
(Loss)/profit before tax		(26,509)	944
Income tax credit	4	5,604	8,684
(Loss)/profit for the year attributable to shareholders		(20,905)	9,628
(Loss)/earnings per share			
Basic (loss)/earnings per share	5	(53.6)	24.6
Diluted (loss)/earnings per share	5	(53.6)	23.7

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 2023

	12 months to 31 May 2023 £'000	12 months to 31 May 2022 £'000
(Loss)/profit for the year	(20,905)	9,628
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(578)	(19)
Total comprehensive (loss)/income for the year attributable to the equity holders of the parent	(21,483)	9,609

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 31 MAY 2023***(REGISTERED COMPANY NO: 02892559)*

	Notes	31 May 2023 £'000	31 May 2022 £'000
Non-current assets			
Goodwill	7	7,160	–
Other intangible assets	8	56,987	70,833
Property, plant and equipment		5,696	6,640
Right-of-use asset		17,860	19,484
Deferred tax assets		–	1,348
Total non-current assets		87,703	98,305
Current assets			
Trade and other receivables		15,558	24,705
Current tax assets		9,438	7,867
Cash and cash equivalents		28,311	38,699
Total current assets		53,307	71,271
Total assets		141,010	169,576
Current liabilities			
Trade and other payables		(16,521)	(21,797)
Lease liability		(1,505)	(1,461)
Deferred income		(4,355)	(2,466)
Total current liabilities		(22,381)	(25,724)
Net current assets		30,926	45,547
Non-current liabilities			
Provisions		(71)	(56)
Lease liability		(17,773)	(19,278)
Other payables		(4,235)	(6,148)
Deferred income		(163)	–
Deferred tax liabilities		(419)	–
Total non-current liabilities		(22,661)	(25,482)
Total liabilities		(45,042)	(51,206)
Net assets		95,968	118,370
Equity			
Share capital		197	197
Share premium account		36,547	36,468
Equity reserve		(14,553)	(12,769)
Foreign exchange reserve		(596)	(18)
Retained earnings		74,373	94,492
Total equity		95,968	118,370

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2023

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
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/(loss) 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
Loss for the year	–	–	–	–	(20,905)	(20,905)
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(578)	–	(578)
Total comprehensive loss for the year	–	–	–	(578)	(20,905)	(21,483)
Issue of share capital net of expenses	–	79	–	–	–	79
Share-based payment charges	–	–	3,340	–	–	3,340
Share-based payment transfer relating to option exercises and lapses	–	–	(2,357)	–	2,357	–
Employee Benefit Trust cash outflows from share purchases	–	–	(3,000)	–	–	(3,000)
Employee Benefit Trust net cash inflows from option exercises	–	–	233	–	–	233
Deferred tax movements posted directly to reserves	–	–	–	–	(1,571)	(1,571)
Transactions with owners	–	79	(1,784)	–	786	(919)
At 31 May 2023	197	36,547	(14,553)	(596)	74,373	95,968

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

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2023

	12 months to 31 May 2023 £'000	12 months to 31 May 2022 £'000
(Loss)/profit before taxation	(26,509)	944
<i>Adjustments for:</i>		
Depreciation and amortisation	41,438	32,199
Impairment of other intangible assets	18,117	7,398
Movement in unrealised exchange (gains)/losses on forward contracts	(239)	474
Share-based payment expenses	3,340	2,452
Interest received	(677)	(57)
Payment of interest element of lease liabilities	607	649
Canadian Scientific Research and Experimental Development (SRED) credit	(365)	–
Research and Development Expenditure Credit (RDEC)	(116)	(375)
<i>Working capital changes:</i>		
Change in trade and other receivables	11,084	(10,964)
Change in trade and other payables	(3,114)	4,465
Change in provisions	15	15
Cash generated from operations	43,581	37,200
Taxes received	4,294	3,956
Net cash flows from operating activities	47,875	41,156
Investing activities		
Purchase of property, plant and equipment	(1,335)	(2,500)
Expenditure on other intangible assets	(42,046)	(36,243)
Acquisition of subsidiaries (net of cash acquired)	(9,606)	–
Interest received	677	57
Net cash flows used in investing activities	(52,310)	(38,686)
Financing activities		
Proceeds from issue of share capital	79	389
Employee Benefit Trust cash outflows from share purchases	(3,000)	(5,000)
Employee Benefit Trust cash inflows from option exercises	233	506
Repayment of loans	(1,260)	–
Payment of principal element of lease liabilities	(1,461)	(1,419)
Payment of interest element of lease liabilities	(607)	(649)
Net cash flows used in financing activities	(6,016)	(6,173)
Net change in cash and cash equivalents from continuing operations	(10,451)	(3,703)
Cash and cash equivalents at beginning of year	38,699	42,423
Exchange differences on cash and cash equivalents	63	(21)
Cash and cash equivalents at end of year	28,311	38,699

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' or the 'Company') 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 and headquartered in the UK, with subsidiaries based in Canada and 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 2023 and 31 May 2022. The accounts for the year ended 31 May 2022 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 May 2023 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 2023 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 1 November 2023. 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.

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 have adequate resources to continue in operational existence for the period to 31 December 2024. 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 cash and cash equivalent resources (including treasury deposits) at the balance sheet date of 31 May 2023 of £28.3 million along with expected cash inflows from current business activities. Cash and cash equivalent resources (including treasury deposits) at 31 August 2023 were £24.8 million. The Annual Budget approved by the Board of Directors, which has

been used to assess going concern, 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 Budget 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 has 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 31 December 2024. Consideration has also been made over the impairment charges (as disclosed in note 8), however given these are accounting charges as opposed to cash outflows do not materially change the forecasts for going concern purposes. The forecasts reflect the latest expectation of revenues across all key titles, including those which were subject to impairment in 2023.

The sensitivities included in the stress testing include the following potential scenarios for 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;
- the development and publishing of titles has progressed as expected; and
- should a more extreme downside scenario occur the Group could take further mitigating actions by reducing discretionary spend.

Having considered all 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 31 December 2024. The financial statements for the year ended 31 May 2023 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.

The majority 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 is received upfront by the distributors.

Other revenue mainly related to royalty income in both FY23 and FY22.

	12 months to 31 May 2023 £'000	12 months to 31 May 2022 £'000
Publishing revenue	104,084	113,555
Other revenue	491	477
Total revenue	104,575	114,032
Cost of sales	(37,230)	(40,420)
Gross profit	67,345	73,612
Research and development expenses	(67,857)	(46,179)
Sales and marketing expenses	(12,012)	(12,339)
Administrative expenses	(14,056)	(13,558)
Operating (loss)/profit	(26,580)	1,536
Net finance income/(costs)	71	(592)
(Loss)/profit before tax	(26,509)	944
Income tax credit	5,604	8,684
(Loss)/profit for the year attributable to shareholders	(20,905)	9,628

4. TAXATION ON ORDINARY ACTIVITIES

The major components of the income tax credit for FY23 and FY22 are:

	12 months to 31 May 2023 £'000	12 months to 31 May 2022 £'000
Consolidated income statement		
Current tax:		
Credit in respect of current year	(4,749)	(3,471)
Adjustments in respect of prior years	(68)	(1,509)
Total current tax	(4,817)	(4,980)
Deferred tax:		
Credit in respect of current year	(610)	(4,507)
Adjustments in respect of prior years	(9)	552
Relating to changes in tax rates	(168)	251
Total deferred tax	(787)	(3,704)
Total taxation credit reported in the income statement	(5,604)	(8,684)
	12 months to 31 May 2023 £'000	12 months to 31 May 2022 £'000
Consolidated equity		
Deferred tax related to items recognised in equity during the year:		
Net change in share option exercises	1,571	2,740

Reconciliation of total tax credit at statutory tax rates:

	12 months to 31 May 2023 £'000	12 months to 31 May 2022 £'000
(Loss)/profit on ordinary activities before taxation	(26,509)	944
Tax on (loss)/profit on ordinary activities at standard statutory tax rate of 20% (2022: 19%)	(5,302)	179
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	73	80
Adjustments in respect of prior years	(77)	(957)
Tax rate benefit on surrender of tax losses	(972)	(850)
Video Games Tax Relief enhanced deductions on which credits claimed	(4,963)	(3,864)
Benefit of Patent Box	(234)	(2,665)
Deferred tax not recognised	6,163	(858)
Effect of changes in tax rate	(168)	251
Effect of higher tax rates in Canada	(124)	–
Total taxation credit reported in the consolidated income statement	(5,604)	(8,684)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate increased to 25%. On 31 May 2023, tax on profit on ordinary activities was therefore being measured at a hybrid rate of 20% and the deferred taxes have been measured using the tax rate at the date that the deferred tax asset or liability unwinds of 20-25% (31 May 2022: 19-25%).

For FY23 the Group has recorded a total corporation tax credit of £5.6 million (FY22: £8.7 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 2* during FY23.

The Group recognised a prior year adjustment of £77k during FY23 due to additional core expenditure in the *Elite Dangerous* VGTR claim and brought forward balances on Complex Games Inc. The Group recognised a prior year adjustment of £957k during FY22 as a result of *Jurassic World Evolution 2*'s VGTR 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 losses not utilised were carried forward.

The tax rate benefit on surrender of tax losses of £972k during FY23 is the additional 5% 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* franchise, *Warhammer Age of Sigmar: Realms of Ruin*, and a new creative management simulation game trade scheduled for release in FY25. The tax rate benefit on surrender of tax losses of £850k during FY22 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: Realms of Ruin*.

The Group benefits from VGTR and can claim an additional (enhanced) deduction from its taxable profits relating to the video game trades. In FY23, the additional deduction in respect of VGTR was £24.1 million at a tax rate of 20% (FY22: £20.3 million at 19%). The increase year on year of the additional deduction of £3.8 million was due to the increase in core development expenditure in respect of video games that are subject to VGTR.

During FY23 deferred tax not recognised of £6.2 million relates to the tax effected saving on the employee share scheme deduction of £0.9 million, temporary difference arising on the deferred income in respect of the Research and Development Expenditure (RDEC) grant of £0.1 million, and unrecognised tax losses movement of £5.2 million.

The unrecognised tax losses movement of £5.2 million is the £29.1 million of current year losses less £3.1 million of losses carried forward recognised during FY23 to offset the deferred tax liability to £nil due to the unlikelihood of the Company having a taxable profit in the foreseeable future to utilise the additional losses, at a tax rate of 20%. Refer to note 20 for more details on tax losses.

In November 2022, Frontier acquired Complex Games Inc which is based in Manitoba, Canada. The Province of Manitoba has a combined corporation tax rate of 27% (31 May 2022: 27%) and therefore the effect of the higher tax rate in respect of Complex Games Inc is recognised in FY23.

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 2023	12 months to 31 May 2022
(Loss)/profit attributable to shareholders (£'000)	(20,905)	9,628
Weighted average number of shares	39,025,746	39,172,987
Basic (loss)/earnings per share (p)	(53.6)	24.6

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 2023	12 months to 31 May 2022
(Loss)/profit attributable to shareholders (£'000)	(20,905)	9,628
Diluted weighted average number of shares	39,025,746	40,606,756
Diluted (loss)/earnings per share (p)	(53.6)	23.7

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 2023	12 months to 31 May 2022
Weighted average number of shares	39,025,746	39,172,987
Dilutive effect of share options	–	1,433,769
Diluted average number of shares	39,025,746	40,606,756

For the 12 months to 31 May 2023, there are 1,878,211 options that have not been included in the table above as they would be anti-dilutive, however could potentially dilute basic earnings per share in future years.

6. BUSINESS COMBINATIONS

On 1 November 2022 the Group acquired experienced game development studio Complex Games Inc following a successful collaboration with the development and launch of *Warhammer 40,000: Chaos Gate – Daemonhunters*.

Frontier acquired 100% of the share capital in Complex for an upfront cash consideration of CAD\$13.3 million (£8.4 million) and conditional deferred cash consideration of up to CAD\$5.2 million (£3.3 million), which is payable subject to Complex meeting certain operational milestones during the period to 31 December 2023. The deferred cash consideration will be payable regardless of the employment status of the sellers.

In addition, the four employee shareholders - the two founders and the two studio principals - will participate in a profit-share earn-out of up to CAD\$11.8 million (£7.5 million) payable annually over five years. The purchase agreement stipulates that the profit-share earn-out will only be paid to each employee if they remain employed by the Group and therefore this purchase consideration is deemed to be post-acquisition expenses under IFRS 3.

The finalised fair values of identifiable assets acquired and liabilities assumed at the acquisition date are:

	Carrying value at acquisition £'000	Fair value adjustment £'000	Fair value £'000
Non-current assets			
Intangible assets	–	3,910	3,910
Property, plant and equipment	6	–	6
Total non-current assets	6	3,910	3,916
Current assets			
Trade and other receivables	2,216	–	2,216
Cash and cash equivalents	411	–	411
Current tax assets	143	–	143
Total current assets	2,770	–	2,770
Current liabilities			
Trade and other payables	(330)	–	(330)
Loans payable	(1,260)	–	(1,260)
Total current liabilities	(1,590)	–	(1,590)
Non-current liabilities			
Deferred tax liability	–	(1,056)	(1,056)
Total non-current liabilities	–	(1,056)	(1,056)
Net identifiable assets and liabilities	1,186	2,854	4,040
Goodwill (note 7)			7,685
Total consideration			11,725

A technology-based intangible asset of £3.9 million has been recognised on acquisition in game developments within other intangible assets, which relates to the software IP behind *Warhammer 40,000: Chaos Gate – Daemonhunters*. The recognition of the intangible asset also generated a deferred tax liability of £1.1 million, being the asset value at a tax rate of 27%, which is the corporation tax rate in the Province of Manitoba.

The main factors leading to the recognition of goodwill on the acquisitions are the presence of certain intangible assets in the acquired entity, which are not valued for separate recognition. These include expertise in the acquired entity, enhancing and growing our development capabilities, broadening our portfolio, and extending our geographical footprint.

The goodwill balance has not resulted in a deferred tax asset as the goodwill balance is not tax deductible in the UK.

Advisor fees incurred in respect of the acquisition totalled £0.3 million in FY23 (FY22: £nil) and were charged to the consolidated income statement, with no further costs anticipated.

Deferred cash consideration of £1.6 million was paid during FY23, with a further £1.5 million due for payment during FY24 and is included within trade and other payables. The probability of the remaining deferred cash consideration being paid is highly likely.

From acquisition date to 31 May 2023, Complex Games Inc contributed revenue and loss after tax of £nil and £2.7 million respectively in the consolidated income statement. IP royalties payable to Complex Games Inc from Frontier Developments plc in relation *Warhammer 40,000: Chaos Gate – Daemonhunters* totalled £1.1 million from the acquisition date to 31 May 2023, which were retained within the Group. These IP royalties retained within the Group are not included within Complex's contributed revenue and loss after tax reported above. If the acquisition had occurred on 1 June 2022, the consolidated income statement would have presented revenue of £0.1 million and loss after tax of £2.9 million in FY23.

7. GOODWILL

	2023 £'000	2022 £'000
At 1 June	–	–
Recognition on acquisition of subsidiary (note 6)	7,685	–
Exchange rate movement	(525)	–
At 31 May	7,160	–

The Group tests goodwill for impairment annually, or more frequently if there are indications that goodwill might be impaired. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from that business combination. The Group has one CGU for goodwill purposes, defined as the one operating segment as disclosed in note 3.

Goodwill impairment tests were carried out at 31 May 2023 in line with the impairment tests carried out on other intangible assets and therefore further detail is included within note 8 in respect of these tests.

As a result of these tests, no impairment charge was required.

8. OTHER INTANGIBLE ASSETS

The Group's other 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 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
Additions	3,449	34,182	429	–	38,060
Acquisition of a subsidiary	–	3,910	58	–	3,968
Exchange rate movement	–	(300)	–	–	(300)
At 31 May 2023	23,182	167,185	2,877	11,185	204,429
Amortisation and impairment					
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
Amortisation charges	3,869	31,898	421	1,341	37,529
Acquisition of a subsidiary	–	–	58	–	58
Impairment charges	3,919	12,474	–	1,724	18,117
Exchange rate movement	–	(130)	–	–	(130)
At 31 May 2023	16,961	122,212	2,130	6,139	147,442
Net book value at 31 May 2023	6,221	44,973	747	5,046	56,987
Net book value at 31 May 2022	10,560	51,423	739	8,111	70,833

Amortisation charges for other intangible assets that relate to game technology, game developments 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.

The recoverable amount of each of the assets at 31 May 2023 is determined from the value in use. The key assumption in calculating the value in use was the expected future cashflows. A five-year bottom up forecast for FY24 to FY28 inclusive has been created as a basis of the expected future cashflows, with a pre-tax discount rate of 10% (31 May 2022: 9%) being applied to the future cashflows. The Directors have assessed the sensitivity of the impairment test to incorporate reasonable possible changes in the key assumptions and noted that no material impairment exists in any cases. Climate change is not expected to have a material impact on future cashflows. Impairments disclosed below were recognised in FY23 as a result of the impairment tests at 31 May 2023.

The Group recognised an impairment charge of £15.0 million in FY23 in respect of intangible assets relating to the *F1® Manager* franchise following an assessment of the overall future performance of the *F1® Manager* franchise following the release of *F1® Manager 2022* (August 2022 – FY23) and *F1® Manager 2023* (July 2023 – FY24). We are currently developing our plans for the *F1® Manager* franchise in 2024.

The Group recognised an impairment charge of £3.1 million in FY23 in respect of games published under the Foundry games label following disappointing financial performance following release. As a result of this financial underperformance, and an increased level of competition amongst third-party publishers, in June 2023 Frontier announced the decision to cease all activity relating to acquiring new third-party titles and instead re-focus on internal titles.

Game developments include a technology-based asset with a fair value of £3.9 million acquired through business combinations (note 6).

9. 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 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 2023 £'000	12 months to 31 May 2022 £'000
Operating (loss)/profit	(26,580)	1,536
Depreciation and amortisation	41,438	32,199
Impairment of other intangible assets	18,117	7,398
EBITDA	32,975	41,133

Adjusted EBITDA

Frontier also discloses an Adjusted EBITDA measure which, in the Group'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 impairment charges, 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 2023 £'000	12 months to 31 May 2022 £'000
Operating (loss)/profit	(26,580)	1,536
Add back non-cash intangible asset amortisation charges for game developments and Frontier's game technology	34,490	26,475
Add back non-cash intangible asset impairment charges	18,117	7,398
Deduct capitalised investment costs in game developments and Frontier's game technology	(37,632)	(35,220)
Add back non-cash depreciation charges	3,909	3,562
Add back non-cash movements in unrealised exchange losses/(gains) on forward contracts	(239)	474
Add back non-cash share-based payment expenses	3,340	2,452
Adjusted EBITDA (loss)/profit	(4,595)	6,677

Research and development (R&D) expenses

Research and development (R&D) expenses recorded in Frontier's consolidated 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 consolidated 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 2023 £'000	12 months to 31 May 2022 £'000
Gross R&D expenses	52,882	47,526
Capitalised investment costs in game developments and Frontier's game technology	(37,632)	(35,220)
Amortisation charges for game developments and Frontier's game technology	34,490	26,475
Impairment of other intangible assets	18,117	7,398
Net R&D expenses	67,857	46,179