

CHIEF EXECUTIVE'S STATEMENT

“WE HAVE DELIVERED ANOTHER GREAT YEAR OF PROGRESS TOWARDS OUR GOAL OF EARNING REVENUE FROM MULTIPLE SELF-PUBLISHED FRANCHISES.”

DAVID BRABEN OBE
Founder and CEO



OVERVIEW

We have had our first full year with *Elite Dangerous*, selling over one million franchise units in the period. At the same time we have made great progress with our second franchise *Planet Coaster*, releasing its first and second 'alpha test' versions to the public towards the end of the financial year, with the third 'alpha test' version released since the close of the financial year. The expected full release of *Planet Coaster* has just been announced for 17 November 2016 at the time of going to press, and will mark the successful completion of our transition, with all development staff working on revenue-generating franchises under our new self-published business model. We can then start on a third franchise as planned.

This year we earned substantially all our revenue from self-published products for the first time, with self-published revenue increasing by 13% and revenue from work-for-hire contracts falling to zero in the year as planned, other than trailing royalties. Headline revenue was £21.4 million with deferred income of £2.2 million. The Group remains in a strong financial position with a net cash balance of £8.6 million. As we continued our planned transition, we generated a pre-tax profit of £1.3 million and EBITDA of £4.9 million. We are pleased with the strong financial position of the business, having invested £8.9 million in our two major self-published franchises during the financial year (2015: £4.3 million), with an increased proportion of development relating to titles yet to be released to 51% (2015: 30%).

MARKET

The video games sector continues to grow significantly. In calendar year 2016, analysts predict that the global video game market will hit around \$100 billion.

PC is the largest digital sales revenue generator by platform, with over 50% market share, followed by mobile, then console. The shift to digital distribution is already largely complete in the PC and mobile segments. Consoles are the only segment in which physical retail remains significant; this is also the segment where digital sales are growing at their fastest rate.

STRATEGY

Our transition to publishing our own franchises is the best way to maximise the benefit of our core skills, assets and our technological platform, COBRA, which enables both *Elite Dangerous* and *Planet Coaster* and future franchises to have a significant technological advantage. The Company's focus is on developing top quality self-published PC and console titles for digital distribution, as together these segments represent the majority of the available market by revenue, and generally the audiences on these platforms value high quality games, and quality is one of Frontier's key development strengths. We will also continue to create further franchises and games that benefit from work on existing franchises that would make use of our established expertise and / or IP in order to further build our revenue pipeline over the long term.

Our belief is that having all our people in our Cambridge HQ working together in a single building will maximise our operational efficiency. We will work toward this objective in the coming months and years.

Going forward we will continue to grow the capacity and capability of our organisation in both commercial and development areas in order to further the successful evolution of our franchises. As part of this process, we will explore potential partnerships and licensing opportunities. We will also continue to review potential acquisition targets that could augment our capacity or add new capabilities and / or IP that may help us achieve our goals. We will endeavour to enhance and expand our franchises and grow their audiences using appropriate additional products, platforms, media, distribution channels, and charging models through investing in the necessary people, organisation, resources and infrastructure.

We believe that using our COBRA development tools and technology to facilitate the creation of innovative, strongly differentiated features for the PC and console audiences currently provides the best return on our investment. Whilst a publisher partner has in FY17 taken up two options under previous work-for-hire contracts to license COBRA to facilitate ports of existing games to new platforms, licensing our COBRA technology to new customers is not a current focus and remains a future strategic opportunity that we will continue to evaluate.

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ELITE DANGEROUS

We have continued to support *Elite Dangerous* with regular significant expansions, and released *Elite Dangerous: Horizons*, a paid-for seasons pass of expansions, and *Elite Dangerous: Arena*, an immediate-action player-vs-player component as a stand-alone entry-level game. These allow us to cover all main price points. We have also participated in price promotions on each of the distribution platforms we are using, making the game available to a wider audience than we would otherwise reach. We have continued to reach new audiences for the game by supporting new distribution channels and platforms such as Xbox One and Amazon as well as the first consumer Virtual Reality (VR) headsets, the HTC Vive and the Oculus Rift. Our investment in our own COBRA technology allowed us to benefit from early adoption of this new technology – for example, *Elite Dangerous* has been a leading title on Oculus Rift for both sales and play-time each and every month since its launch. All of this continues to build the franchise.

Elite Dangerous is now in its second year of release. The attach rate of *Elite Dangerous: Horizons* to the base game was initially lower than expected, but unit sales of the base game were higher at the same time. *Horizons* and the base *Elite Dangerous* game continue to sell steadily, helped by the regular updates. These updates add to the quality of the game, renew the interest of existing players, and also generate additional coverage resulting in new sales.

The opportunity to become a breakout hit franchise remains, as the game continues to sell and we continue to focus on enhancements to further improve perceived quality and sentiment. We expect to continue to expand the player base over the next financial year, adding new content and increasing the audience.

PLANET COASTER

Development of *Planet Coaster* remains on track for launch in calendar Q4 2016. *Planet Coaster* draws on our extensive past experience in the 'Tycoon' genre, and in coaster park games, including the massive hit *RollerCoaster Tycoon 3*. We have now released three Alpha builds of *Planet Coaster* (the first two within the financial year). These have been very well received, and early indications are positive, with social media 'footprint' tracking significantly higher than *Elite Dangerous* at the equivalent time in the development cycle. *Planet Coaster* moves the 'Tycoon' genre forwards significantly, adding detailed creative building and a community hub to enrich simulation gameplay, and has captured the imagination of players already with a number of 'Youtubers' showing their experiences of building truly amazing structures within the game.

SUMMARY

We have delivered another great year of progress towards our goal of earning revenue from multiple self-published franchises. I would like to add my thanks to all at Frontier for their hard work, our investors for their continued support, and to our many fans around the world that continue to make it all possible.

DAVID BRABEN OBE

Founder and CEO

6 September 2016



OUTLOOK AND CURRENT TRADING UPDATE

Trading since the year end, in what is a seasonally quiet quarter for the Group, has exceeded the Board's expectations. Up to 31 August 2016 the Group had sold approximately 1.8 million franchise units of *Elite Dangerous*. The third *Planet Coaster* Alpha build was released in August, and up to 31 August 2016 the Group had sold approximately 50,000 pre-order units of *Planet Coaster*. Net cash balance at 31 August 2016 was approximately £8.4 million.

Since the year end the Group has also received £0.2 million of UK video game tax relief relating to its work for Amazon Game Studios. Frontier has submitted a further £0.7 million of claims related to *Elite Dangerous* which were not recognised in FY16, and will continue to submit claims for eligible projects at the appropriate time. See note 25 in the financial statements for an explanation of how this is treated.

Frontier remains at an early stage of the multi-franchise self-published model and therefore, although the Board believes Frontier's strategy will deliver successfully, it is difficult to predict future outcomes with a degree of certainty and the Board expects Frontier's results to continue to exhibit stepped characteristics driven by the timing of major franchise releases.

In FY17, following the successful completion of Frontier's transition to generating self-publishing revenue from multiple franchises with the release of *Planet Coaster*, the Board expects the Group to be well placed – using the self-published business model maximises the return on Frontier's core skills and assets, and two strong revenue-generating franchises will provide a good foundation from which to take further advantage of the significant opportunities available in the fastest growing segment of the entertainment industry.

We plan to continue to increase the audience for *Elite Dangerous* via new distribution channels and platforms, and to further enrich the *Elite Dangerous* experience with new activities and new ways to play. The Board expects sales of *Elite Dangerous* to continue to build over the rest of the financial year as new players are recruited and adoption of *Elite Dangerous: Horizons* continues.

The results for the year will primarily be driven by the successful launch of *Planet Coaster* in November and trading over the holiday period. The encouraging performance of *Planet Coaster* pre-orders and the positive reception of the Alpha build give the Board confidence of a successful launch. We will support *Planet Coaster* post launch in order to grow the community of players over time.

Overall, the Board is confident and excited about the opportunities ahead in the coming years.

Note regarding the effects of the UK's referendum vote to leave the EU:

The Board does not consider the UK referendum result to present any significant concerns for the business. Frontier has significant revenues from non-GBP sources, and exchange rate shifts therefore influence the Company's finances. To date the impact of the currency movements since the referendum has been positive, notwithstanding the Group's policy of hedging half its forecast exposure in its most significant foreign currencies. The Company is expecting that all existing non-UK EU nationals currently employed in the UK by Frontier will be able to remain working for the Company, although at the time of writing there are no specific details available as to the impact of the vote. The Board expects that even in the case where a visa may be required, as Frontier is a Tier 2 visa sponsor the Company should be able to retain the services of its current non-UK EU nationals. Frontier's approach to exchange rate volatility, staff availability and staff retention risks is set out in the Principal Risks and Uncertainties section on pages 20 to 21.