INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FRONTIER DEVELOPMENTS PLC (REGISTERED NO: 02892559)

We have audited the financial statements of Frontier Developments plc for the year ended 31 May 2016 which comprise the consolidated statement of cashflows, the Company statement of cashflows, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the Company statement of financial position, the consolidated statement of changes in equity, the Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement as set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

ALISON SEEKINGS
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
12 September 2016

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2016

	31 May 2016 £'000	31 May 2015 £'000
Operating activities		
Cash generated from operations (see below)	**7,475**	7,334
Finance income	(37)	(53)
Taxes (paid) / received	(121)	23
Cashflow from operating activities	**7,317**	7,304
Investing activities		
Purchase of property, plant and equipment	(233)	(289)
Expenditure on intangible assets	(8,965)	(4,385)
Proceeds from disposal of non-derivative financial assets	–	36
Employee Benefit Trust investment	(563)	(551)
Interest received	37	53
Cashflow from investing activities	**(9,724)**	(5,136)
Financing activities		
Repayment of interest-free loan	–	(158)
Proceeds from issue of share capital	276	159
Cashflow from financing activities	**276**	1
Net change in cash and cash equivalents from continuing operations	(2,131)	2,169
Cash and cash equivalents at beginning of period	10,478	8,612
Exchange differences on cash and cash equivalents	263	(303)
Cash and cash equivalents at end of period	**8,610**	10,478

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

The following non-cashflow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cashflow:

CASH GENERATED FROM OPERATIONS

	31 May 2016 £'000	31 May 2015 £'000
Profit after tax	1,432	1,647
Depreciation and amortisation	3,638	4,517
Fair value adjustments	551	31
Profit on disposal of fixed assets and available for sale assets	–	1
Proceeds from the sale of non-current assets	–	16
Share-based payment expenses	738	767
Taxation	(162)	(190)
Foreign exchange	(267)	242
Operating cashflow before changes in working capital	**5,930**	7,031
Net changes in working capital:		
Change in inventories	4	2
Change in trade and other receivables	603	74
Change in trade and other payables	925	190
Change in provisions	13	37
Cash generated from operations	**7,475**	7,334

COMPANY STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MAY 2016

	31 May 2016 £'000	31 May 2015 £'000
Operating activities		
Cash generated from operations (see below)	6,572	7,468
Finance income	(35)	(50)
Taxes (paid) / received	(148)	–
Cashflow from operating activities	6,389	7,418
Investing activities		
Purchase of property, plant and equipment	(233)	(287)
Expenditure on intangible assets	(8,965)	(4,385)
Proceeds from disposal of non-derivative financial assets	–	36
Employee Benefit Trust investment	(563)	(551)
Interest received	35	50
Cashflow from investing activities	(9,726)	(5,137)
Financing activities		
Proceeds from issue of share capital	276	159
Cashflow from financing activities	276	159
Net change in cash and cash equivalents from continuing operations	(3,061)	2,440
Cash and cash equivalents at beginning of period	10,203	7,997
Exchange differences on cash and cash equivalents	389	(234)
Cash and cash equivalents at end of period	7,531	10,203

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

The following non-cashflow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cashflow:

CASH GENERATED FROM OPERATIONS

	31 May 2016 £'000	31 May 2015 £'000
Profit after tax	1,531	1,584
Depreciation and amortisation	3,638	4,485
Fair value adjustments	551	–
Loss on disposal of fixed assets and available for sale assets	–	3
Share-based payment expenses	745	761
Taxation	(217)	(7)
Foreign exchange	(389)	233
Operating cashflow before changes in working capital	5,859	7,059
Net changes in working capital:		
Change in inventories	4	2
Change in trade and other receivables	185	676
Change in trade and other payables	511	(306)
Change in provisions	13	37
Cash generated from operations	6,572	7,468

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2016

	Notes	31 May 2016 £'000	31 May 2015 £'000
Revenue	5	**21,363**	22,763
Cost of sales		**(5,098)**	(2,119)
Gross profit		**16,265**	20,644
Other income		**3**	3
Selling and distribution expenses		**(3,887)**	(2,749)
Administrative expenses		**(4,154)**	(4,561)
Research and development expenses		**(6,989)**	(11,771)
Operating profit		**1,238**	1,566
Finance income	24	**37**	53
Profit before tax	6	**1,275**	1,619
Income tax	25	**157**	28
Profit for the period attributable to the equity holders of the parent		**1,432**	1,647

All the activities of the Group are classified as continuing.

	Notes	31 May 2016 p	31 May 2015 p
Earnings per share	26		
Basic earnings per share		**4.2**	4.9
Diluted earnings per share		**4.1**	4.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2016

	31 May 2016 £'000	31 May 2015 £'000
Profit for the period	**1,434**	1,647
Other comprehensive income:		
Items that will be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	**(4)**	(27)
Total comprehensive income for the period attributable to the equity holders of the parent	**1,428**	1,620

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2016 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2016 £'000	31 May 2015 £'000
Non-current assets			
Intangible assets	7	**16,690**	11,101
Property, plant and equipment	9	**304**	333
Total non-current assets		**16,994**	11,434
Current assets			
Inventories	13	**9**	13
Trade and other receivables	14	**2,443**	3,046
Other short-term assets	15	**376**	50
Cash and cash equivalents	16	**8,610**	10,478
Total current assets		**11,438**	13,587
Total assets		**28,432**	25,021
Equity and liabilities			
Equity			
Share capital	17	**170**	168
Share premium account		**14,476**	13,963
Equity reserve		**579**	633
Foreign exchange reserve		**(61)**	(57)
Retained earnings		**7,600**	6,180
Total equity		**22,764**	20,887
Liabilities			
Current			
Trade and other payables	20	**3,073**	3,107
Deferred income	22	**1,085**	96
Current tax liabilities	21	**89**	–
Total current liabilities		**4,247**	3,203
Non-current			
Provisions	23	**273**	260
Deferred income	22	**1,148**	627
Deferred tax	12	**–**	44
Total non-current liabilities		**1,421**	931
Total liabilities		**5,668**	4,134
Total equity and liabilities		**28,432**	25,021

These financial statements were approved by the Directors on 6 September 2016 and signed on their behalf by:

DAVID BRABEN OBE
Director

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

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2016 (REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2016 £'000	31 May 2015 £'000
Non-current assets			
Intangible assets	7	16,690	11,101
Property, plant and equipment	9	304	333
Total non-current assets		16,994	11,434
Current assets			
Inventories	13	9	13
Trade and other receivables	14	2,586	2,771
Other short-term assets	15	376	13
Cash and cash equivalents	16	7,531	10,203
Total current assets		10,502	13,000
Total assets		27,496	24,434
Equity and liabilities			
Equity			
Share capital	17	170	168
Share premium account		14,476	13,963
Equity reserve		579	633
Retained earnings		7,133	5,607
Total equity		22,358	20,371
Liabilities			
Current			
Trade and other payables	20	3,103	3,080
Deferred income	22	822	96
Total current liabilities		3,925	3,176
Non-current			
Provisions	23	273	260
Deferred income	22	940	627
Total non-current liabilities		1,213	887
Total liabilities		5,138	4,063
Total equity and liabilities		27,496	24,434

These financial statements were approved by the Directors on 6 September 2016 and signed on their behalf by:

DAVID BRABEN OBE
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2016

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2014	167	13,805	790	(30)	4,160	18,892
Increase in equity in relation to options issued	–	–	767	–	–	767
Net loss on EBT shares	–	–	(495)	–	–	(495)
Own shares held by the EBT	–	–	(56)	–	–	(56)
Share-based payment transfer	–	–	(373)	–	373	–
Issue of share capital less expenses	1	158	–	–	–	159
Transactions with owners	1	158	(157)	–	373	375
Profit for the year	–	–	–	–	1,647	1,647
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(27)	–	(27)
Total comprehensive income for the year	–	–	–	(27)	1,647	1,620
At 31 May 2015	168	13,963	633	(57)	6,180	20,887
Increase in equity in relation to options issued	–	–	738	–	–	738
Net loss on EBT shares	–	–	(412)	–	–	(412)
Own shares held by the EBT	–	–	(392)	–	–	(392)
Share-based payment transfer	–	–	12	–	(12)	–
Issue of share capital less expenses	2	513	–	–	–	515
Transactions with owners	2	513	(54)	–	(12)	449
Profit for the year	–	–	–	–	1,432	1,432
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(4)	–	(4)
Total comprehensive income for the year	–	–	–	(4)	1,432	1,428
At 31 May 2016	**170**	**14,476**	**579**	**(61)**	**7,600**	**22,764**

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

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2016

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2014	167	13,805	777	3,668	18,417
Increase in equity in relation to options issued	–	–	762	–	762
Net loss on EBT shares	–	–	(495)	–	(495)
Own shares held by the EBT	–	–	(56)	–	(56)
Share-based payment transfer	–	–	(355)	355	–
Issue of share capital less expenses	1	158	–	–	159
Transactions with owners	1	158	(144)	355	370
Profit for the year	–	–	–	1,584	1,584
Total comprehensive income for the year	–	–	–	1,584	1,584
At 31 May 2015	168	13,963	633	5,607	20,371
Increase in equity in relation to options issued	–	–	745	–	745
Net loss on EBT shares	–	–	(412)	–	(412)
Own shares held by the EBT	–	–	(392)	–	(392)
Share-based payment transfer	–	–	5	(5)	–
Issue of share capital less expenses	2	513	–	–	515
Transactions with owners	2	513	(54)	(5)	456
Profit for the year	–	–	–	1,531	1,531
Total comprehensive income for the year	–	–	–	1,531	1,531
At 31 May 2016	**170**	**14,476**	**579**	**7,133**	**22,358**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2016

1. CORPORATE INFORMATION
Frontier Developments plc ("the Group") develops 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 306 Science Park, Milton Road, Cambridge CB4 0WG.

The Group's operations are based in the UK and its North American subsidiaries, Frontier Developments Inc., are based in Canada and in the US.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE
The principal accounting policies applied in the preparation of this financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The financial information of Frontier Developments plc has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

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

The expenses stated in the income statement have been reclassified to allow comparability with other companies in the sector. Cost of sales is now represented by sales commission, royalties payable, online payment charges and physical merchandise costs. Operating costs have been analysed into selling and distribution, research and development and administration expenses.

Going concern basis

The Group'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 has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of approval of these financial statements. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

3. PRINCIPAL ACCOUNTING POLICIES
The majority of the principal accounting policies have been repositioned to the relevant notes to the financial statements.

Basis of consolidation
The consolidated financial statements incorporate those of the Group and all entities controlled by it, after eliminating internal transactions. Control is achieved where the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The entities' results are adjusted, where appropriate, to conform to Group accounting policies.

Business combinations
Business combinations are accounted for using the acquisition method under the revised IFRS 3 Business Combinations (IFRS 3R). The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair value of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration agreement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Standards and interpretations not yet applied

The following new standards, which are yet to become mandatory, have not been applied in the financial statements:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)*
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)*
- IFRS 16 Leases (effective 1 January 2019)*
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (IASB effective date 1 January 2016) (Endorsed)
- Annual Improvements to IFRSs 2010–2012 Cycle (IASB effective date generally 1 July 2014) (EU mandatory effective date is financial years starting on or after 1 February 2015) (Endorsed)
- Annual Improvements to IFRSs 2012–2014 Cycle (effective 1 January 2016) (Endorsed)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (effective 1 January 2016) (Endorsed)
- Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2016) (Endorsed)
- Disclosure Initiative: Amendments to IAS 7 Statement of Cash Flows (effective 1 January 2017)
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)*

* Not yet EU endorsed.

Based on the Group's current business model and accounting policies, management does not expect material impacts on the financial information when the standards become effective except for IFRS 16. The Group is considering early implementation in line with the timing of its strategic intent to relocate into one building.

The Group does not expect IFRS 15 to have a material impact on the business as the key principles have already been adhered to within the current revenue recognition policy.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year have been moved to notes 5, 7 and 12 of the financial statements.

5. 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 self-published work, and royalties plus merchandise (in the prior financial year the Group recognised external publisher work as a separate segment, but has transitioned the business away from that type of work). Resources are managed on the basis of the Group as a whole.

The Group's revenues from external customers are divided into the following geographical areas:

	31 May 2016 £'000	31 May 2015 £'000
United Kingdom	3,271	5,795
United States of America	8,787	7,687
Rest of the world	9,305	9,281
	21,363	22,763

The Group's gross profit by each revenue stream is as follows:

	31 May 2016 £'000	31 May 2015 £'000
Self-published	16,061	17,078
External publishers	–	3,429
Royalties, merchandise and other income	204	137
	16,265	20,644

5. SEGMENT INFORMATION CONTINUED

For further analysis of gross margin per revenue stream see Financial review page 24.

All of the Group's non-current assets are held within the UK.

In both 2015 and 2016 there were no customers whose revenue accounted for more than 10% of the Group and Company's total revenue, although the Group bears the credit risk associated with sales made through distribution platforms.

All material revenue is categorised as either 'self-published', 'external publishers' or royalties, or merchandise and other.

	31 May 2016 £'000	31 May 2015 £'000
External publishers	–	3,429
Self-published	20,958	18,558
Royalties	241	322
Other	164	454
	21,363	22,763

Revenue recognition

Revenue represents amounts derived from the design, production and sale of computer games software and related technology which fall within the Group's ordinary activities, exclusive of value added tax and other similar sales taxes. Revenue is measured by reference to the fair value of consideration received or receivable.

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

Revenue from released self-published titles is recognised on download of the game or upon purchase of in-game digital items.

Revenue from pre-orders of games and crowd-funding for self-published titles is normally deferred, then recognised when the Group meets its performance obligations. Where there is no clear performance obligation, for example, membership of a development forum, this is taken as revenue over the expected development period of the game on a straight line basis.

Revenue earned from royalties under distribution agreements is recognised in the period that the sales to the end customer are made, estimated on an accruals basis as royalty reports are received on a monthly or calendar quarter basis.

Adjusted operating profit / (loss) costs are adjusted for non cash expenses and funding items as a key performance indicator for the Group and are also used by the Chief Executive Officer. Adjusted EBITDA was monitored in prior years and has been included as sub totals which are calculated as follows:

	31 May 2016 £'000	31 May 2015 £'000
Operating profit	1,238	1,566
Depreciation	262	271
Amortisation and impairment	3,376	4,246
EBITDA	4,876	6,083
Share-based compensation	738	767
Dilapidation provision	13	37
Fair value adjustments	551	72
Gain on investment	–	1
US set-up fees	–	7
Adjusted EBITDA	6,178	6,967
R&D capitalised	(8,857)	(4,338)
Tax credits deducted from administration expenses	(13)	(163)
Adjusted Operating (loss) / profit	(2,692)	2,466

Accounting policies

Segment reporting

The Group identifies one operating segment as the business is managed as a whole reflecting the transition of the Group from an external publisher to self-publishing. For management purposes the chief operating decision maker reviews the financial information which is consistent with that reported in its financial statements, with financial performance measured on the basis of contribution before central costs. Assets are not fully directly attributable to any separable activity, other than to self-published software intangibles.

Significant accounting estimates

Revenue recognition

Where self-published titles have pre-orders, recognition is made by reference to delivery of performance obligations. Revenue stemming from the sale of 'early versions' of a game are recognised from the date of release of the 'early access versions'. Where pre-orders include delivery of the final version of the game, an estimate is made of this final element, which is based on man months to complete and is moved to deferred income until the final version is released to the public.

Where the Group has made a self-published title containing a season of content (a number of periodic releases) recognition is made by reference to delivery of performance obligations which use a measure of development man months incurred per periodic release as an estimate of delivery of these performance obligations.

6. PROFIT BEFORE TAX

	31 May 2016 £'000	31 May 2015 £'000
This is stated after charging / (crediting):		
Amortisation and impairment on intangibles	3,376	4,246
Depreciation of owned property, plant and equipment	262	271
Research and development costs expensed	609	287
Auditor remuneration:		
Audit of the parent and Group	40	39
Audit related assurance services	10	8
Operating leases – land and buildings	655	526

Foreign currencies

Transactions denominated in a foreign currency are translated at the rate of exchange ruling at a month-end rate in order to approximate to actual rate for the relevant transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date.

Foreign exchange differences are charged to the income statement in the period in which they arise.

7. INTANGIBLE ASSETS

Group and Company

The Group and Company intangible assets comprise capitalised development tools and self-published software from internal development activities and acquired software licences. The carrying amounts for the reporting periods under review can be analysed as follows:

	Development tools and licences £'000	Self-published software £'000	Third party software £'000	Total £'000
Cost				
At 31 May 2014	4,527	9,466	956	14,949
Additions – arising from internal development	663	3,675	47	4,385
Disposals	(848)	–	(9)	(857)
At 31 May 2015	4,342	13,141	994	18,477
Additions – arising from internal development	398	8,459	108	8,965
Disposals	(774)	–	–	(774)
At 31 May 2016	**3,966**	**21,600**	**1,102**	**26,668**
Amortisation and impairment				
At 31 May 2014	2,025	1,166	796	3,987
Charge for the period	1,075	2,680	116	3,871
Charge for the period for acquired rights	–	375	–	375
Disposals	(848)	–	(9)	(857)
At 31 May 2015	2,252	4,221	903	7,376
Charge for the period	1,127	1,509	96	2,732
Charge for the period for acquired rights	–	644	–	644
Disposals	(774)	–	–	(774)
At 31 May 2016	**2,605**	**6,374**	**999**	**9,978**
Net book value at 31 May 2016	**1,361**	**15,226**	**103**	**16,690**
Net book value at 31 May 2015	2,090	8,920	91	11,101

7. INTANGIBLE ASSETS CONTINUED

Excluding an immaterial amount of third party software amortisation that is included in administrative expenses, all amortisation charges, impairments or reversals (if any) are included within research and development expenses.

The *Elite* rights acquired from Professional Practice Automation LLP in 2014 are included within self-published software. The net book value of the acquired rights at 31 May 2016 was £4.1 million (2015: £4.8 million).

Accounting policies

Intangible assets

Intangible assets are measured at historic cost and are amortised on a straight line basis over their expected useful economic life. They comprise three categories:

- development tools;
- software (self-published games) and royalty rights acquired in connection with jointly held IP; and
- software (third party).

An internally generated intangible asset arising from the Group's development activities is recognised only if all of the following conditions are met:

- completion of the intangible asset is technically feasible so that it will be available for use in developing games (in respect of development tools) or for sale of games (in respect of self-published software);
- the Group intends to complete the intangible asset and has the ability to use or license it as indicated above, thus generating probable future economic benefits;
- the expenditure attributable to the intangible asset during its development, mainly salary costs, can be measured reliably; and
- the Group has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Internally generated intangible assets, consisting of direct labour costs, other specific direct project costs and attributable project support costs, are amortised on a straight line basis over their useful economic lives. The estimated useful lives of current development projects are between three and five years. When a self-published game is intended for release on multiple platforms without material content change, amortisation is based on the length of time in which that game is expected to be supported in an unchanged format with a limit of up to six years. Acquired rights are assessed for the useful 'franchise life'. For *Elite Dangerous* this is prudently estimated at eight years; within the sector successful franchises normally have useful lives of over ten years. Until completion the assets are subject to annual impairment testing. In most circumstances amortisation commences upon completion of the asset and is shown within research and development expenses in the income statement.

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

Research activities

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment of intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its individual intangible assets for any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the fair value less costs to sell or value in use.

Fair value is measured for self-published games by discounting future cashflows.

Significant accounting estimates

Intangible assets

The Group invests heavily in research and development. The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done. Development costs of software tools within a project that can be utilised generically are separately identified. Judgements are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis but remains uncertain at the time of recognition as it may be subject to future technical problems and therefore a review for indicators of impairment is completed by product at each period end date. The net book values of the Group and Company intangible assets including rights acquired at 31 May 2016 are £16,689,747 (2015: £11,100,568).

Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example, a decision to suspend a self-published title under development.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cashflows.

Games developed to be self-published are reviewed for impairment based on the status at the end of each financial year and at the half year against a prudent level of the projected net earnings.

In respect to amortisation, normally self-published titles are amortised on completion of the game, however an exception to this occurs when project funding is obtained via innovative crowd-funded platforms, such as Kickstarter. Such funding is generally seen as 'contributing to make the game happen' and requires the Company to set up a number of pledge levels which include a donation element. When 'donation and intangible' elements of pledge levels are recognised as revenue, an equivalent amount of amortisation charged reflects this 'contribution element'. The pledge levels also include delivery of a number of 'early versions' of the game and an estimated and prudent cost is applied as amortisation. In the case of *Elite Dangerous* 60% was used and upon release of the game, amortisation reverted to an estimated useful life of six years. In the financial year to May 2016 £1,509,238 of amortisation was recognised for these elements of *Elite Dangerous* (2015: £1,220,085).

8. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company holds a £66 investment in Frontier Developments Inc., a company registered in Canada and a £6 investment in Frontier Developments Inc., a company registered in the US. These represent 100% of the Ordinary Share capital of the companies, which are engaged in publisher support services for the Group.

Accounting policy

Employee Benefit Trust

As the Company is deemed to have control of its Employee Benefit Trust (EBT), it is treated as a subsidiary and consolidated for the purposes of the consolidated financial statements. The EBT's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements. The EBT's investment in the Company's shares is deducted from equity in the consolidated statement of financial position as if they were treasury shares. The gain or loss on transfer of the shares from the EBT to employees is recognised within equity.

9. PROPERTY, PLANT AND EQUIPMENT

Group

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2014	273	1,399	10	1,682
Additions	76	213	–	289
Disposals	(116)	(267)	(6)	(389)
At 31 May 2015	233	1,345	4	1,582
Additions	2	231	–	233
Disposals	–	–	–	–
At 31 May 2016	**235**	**1,576**	**4**	**1,815**
Depreciation				
At 31 May 2014	230	1,118	6	1,354
Charge for the period	52	216	3	271
Disposals	(110)	(261)	(5)	(376)
At 31 May 2015	172	1,073	4	1,249
Charge for the period	41	221	–	262
Disposals	–	–	–	–
At 31 May 2016	**213**	**1,294**	**4**	**1,511**
Net book value at 31 May 2016	**22**	**282**	**–**	**304**
Net book value at 31 May 2015	61	272	–	333

9. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Company

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Total £'000
Cost				
At 31 May 2014	258	1,299	4	1,561
Additions	75	212	–	287
Disposals	(100)	(166)	–	(266)
At 31 May 2015	233	1,345	4	1,582
Additions	2	231	–	233
Disposals	–	–	–	–
At 31 May 2016	**235**	**1,576**	**4**	**1,815**
Depreciation				
At 31 May 2014	223	1,050	4	1,277
Charge for the period	49	189	–	238
Disposals	(100)	(166)	–	(266)
At 31 May 2015	172	1,073	4	1,249
Charge for the period	41	221	–	262
Disposals	–	–	–	–
At 31 May 2016	**213**	**1,294**	**4**	**1,511**
Net book value at 31 May 2016	**22**	**282**	**–**	**304**
Net book value at 31 May 2015	61	272	–	333

Depreciation charges are apportioned to the income statement as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	**31 May 2016 £'000**	31 May 2015 £'000
Charge				
Research and development expenses	**253**	241	**253**	213
Administration expenses	**9**	30	**9**	25
Total	**262**	271	**262**	238

Accounting policies

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged to the income statement so as to write off the cost less estimated residual values over their expected useful lives on a straight line basis over the following periods:

Fixtures and fittings	5 years
Computer equipment	2½ years – 5 years
Leasehold improvements	Length of the lease

Residual values and useful economic lives are assessed annually. The gain or loss on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in administrative expenses.

Impairment of property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its individual property, plant and equipment for any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the fair value less costs to sell or value in use.

Fair value is measured by a review of the expected useful economic life compared to that implied in the amortisation rate.

10. OPERATING LEASES AS LESSEE

At each period end the future operating lease payments were as follows:

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Minimum lease payments due within one year	692	670
Minimum lease payments due within one to five years	2,037	2,669
Minimum lease payments due in greater than five years	–	43
Total	2,729	3,382

Group lease payments recognised as an expense during the year ended 31 May 2016: £651,695 (2015: £522,587).

The lease payments relate to the rental contracts for the office buildings, which expire April 2020 and August 2020, a lease agreement for office equipment that will expire in January 2019 and a lease agreement for a commercial vehicle which expires in October 2018. A new lease agreement was entered into for Unit 321-3 Cambridge Science Park and is due to expire in August 2020. Both building leases have flexible break clauses that can be exercised if required by the Group.

During the year the Group entered into two new lease agreements, one for office equipment and another for a commercial vehicle.

Company property lease payments recognised as an expense during the year ended 31 May 2016: £651,695 (2015: £431,227), for the office equipment: 31 May 2016: £3,455 (2015: £nil) and for the commercial vehicle: 31 May 2016: £1,049 (2015: £nil).

The lease payments relate to the rental contracts for the office buildings, which expire April 2020 and August 2020. The Group's and Company's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

Accounting policy

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement net of any incentives received from the lessor on a straight line basis over the period of the lease.

11. FINANCIAL ASSETS AND LIABILITIES

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

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Loans and receivables				
Trade and other receivables	1,598	1,592	1,781	1,656
Cash and cash equivalents	8,610	10,478	7,531	10,203
Total	10,208	12,070	9,312	11,859

Derivative financial instruments

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

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Derivative financial (liabilities) / assets				
Total – Forward exchange contracts – held for trading	(388)	163	(388)	163

The Group used forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast sales in US Dollars. The forward contracts are considered by management to be part of economic hedge arrangements but have not been formally designated.

All forward contracts are held at fair value through the profit and loss by reference to the exchange rate at the balance sheet date as supplied by the Group's main banking partner.

11. FINANCIAL ASSETS AND LIABILITIES CONTINUED

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	**31 May 2016 £'000**	31 May 2015 £'000
Financial liabilities				
Financial liabilities measured at amortised cost:				
Trade and other payables	**2,337**	2,806	**2,367**	2,779
Total	**2,337**	2,806	**2,367**	2,779

Accounting policies

Foreign currencies

The assets and liabilities in the financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the statement of financial position date. Income and expenses are translated at the average exchange rate. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are recognised in other comprehensive income and are accumulated in the foreign currency reserve in equity. On disposal of a foreign operation, the cumulative translation differences are transferred to the profit and loss as a reclassification adjustment as part of the gain or loss on disposal.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its financial liabilities. Equity instruments do not include a contractual obligation to deliver cash or other financial assets to another entity. Any instrument that does have the obligation to deliver cash or another financial asset to another entity is classified as a financial liability.

Financial liabilities are presented under liabilities on the statement of financial position.

Financial assets

Loans and receivables comprise trade receivables, other receivables and cash and cash equivalents.

Financial assets classified as loans and receivables are recognised initially at fair value and measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the asset's carrying amount and the present value of estimated future cashflows discounted at the financial asset's original effective interest rate.

Financial assets and liabilities at FVTPL

Derivative financial instruments are financial assets and liabilities measured at fair value through the profit and loss (FVTPL) and are financial instruments that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative instruments fall into this category.

Financial instruments in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets and liabilities in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial liabilities

The Group's other financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method, except for financial liabilities designated at fair value through profit and loss (FVTPL).

Fair value measurements recognised in the balance sheet

Financial instruments that are measured subsequent to initial recognition at fair value have been classified using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable market inputs).

12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes arising from temporary differences can be summarised as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Accelerated capital allowances	1,885	1,493	1,885	1,493
Short-term temporary differences (restricted)	(267)	(483)	(267)	(483)
Tax losses (restricted)	(1,618)	(966)	(1,618)	(1,010)
Total liability	–	44	–	–
Balance brought forward	44	74	–	–
Effect of tax rate change on opening balance	–	–	–	–
Effect of exchange rate change on opening balance	–	(2)	–	–
Movement in year	(44)	(28)	–	–
Balance carried forward liability	–	44	–	–

No deferred tax asset at 31 May 2016 has been recognised in the statement of financial position for the Group. The deferred tax liability at 31 May 2016 is £nil (2015: £43,689), with the 2015 liability being wholly attributable to the Canadian entity.

The table below summarises the deferred tax assets for the Group and Company which have not been recognised in the financial statements as only a proportion of the tax losses are anticipated to crystallise or be able to be used in the foreseeable future. Total UK tax losses available at 31 May 2016 amount to £5.6 million (2015: £5.9 million).

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Deferred tax asset not provided				
Losses and Video Games Tax Relief	(893)	(1,122)	(893)	(1,122)
Total	(893)	(1,122)	(893)	(1,122)

Significant accounting estimate

Deferred tax

A deferred tax asset is recognised where the Group considers it probable that future tax profits will be available against which the tax credit will be utilised in the future. This specifically applies to tax losses and to outstanding vested share options at the statement of financial position date. In estimating the amount of the deferred tax asset that should be recognised, the Directors make judgements based on current forecasts about the amount of future taxable profits and the timings of when these will be realised. A deferred tax asset is currently not being recognised in full due to the unpredictability of future taxable trading profits.

13. INVENTORIES

Inventories recognised in the statement of financial position can be analysed as follows:

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Merchandise	9	13
Total inventory	9	13

There is no material difference between the replacement cost of inventory and the amounts stated above. For the year ended 31 May 2016 a total of £144,872 was expensed for merchandise (2015: £453,784).

Accounting policy

Inventories

Inventories are stated at the lower of cost and net realisable value. Inventory comprises stock of merchandise items held at a third party distribution location; these are reviewed at the balance sheet date for an indication of slow moving and defective items. Where such an indication exists, a suitable provision is made.

14. TRADE AND OTHER RECEIVABLES

Trade and other receivables recognised in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Trade receivables, gross	106	134	75	127
Intercompany receivable	–	–	213	72
Trade receivables, net	106	134	288	199
Derivative financial instruments	–	163	–	163
Other receivables	1,492	1,458	1,493	1,457
Financial assets	1,598	1,755	1,781	1,819
Prepayments	779	770	779	752
VAT and other taxes	66	521	26	200
Non-financial assets	845	1,291	805	952
Trade and other receivables	2,443	3,046	2,586	2,771

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

No receivables are past their due date and the balances comprise receivables from highly credit rated customers.

15. OTHER SHORT-TERM ASSETS

Other short-term assets comprise:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Other short-term assets – current tax assets	376	50	376	13

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Cash at bank and in hand				
GBP	6,352	7,944	6,352	7,944
USD	1,404	2,229	877	2,195
EUR	301	55	301	55
CAD	553	250	1	9
Financial assets	8,610	10,478	7,531	10,203

Cash at bank earns interest at a floating rate based on the length of deposit at standard commercial terms. The net carrying value of cash and cash equivalents equates to fair value.

Accounting policy

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits available on demand.

17. EQUITY

Share Capital

Group and Company movements in share capital

Movements in Ordinary Shares are as follows:

	2016		2015	
	Number '000	Value £'000	Number '000	Value £'000
At 1 June 2014 and 31 May 2015				
Ordinary Shares of 0.5 pence	33,580	168	33,384	167
Shares issued on option exercises	217	1	196	1
Shares issued to Employee Benefit Trust	300	1	–	–
At 31 May 2016	34,097	170	33,580	168

During the year to 31 May 2016 the following share issues were made:

From 1 June 2015 to 31 May 2016 517,084 Ordinary Shares of 0.5 pence were allotted as fully paid at an average premium of 99 pence being the exercise of share warrants by a third party (granted at IPO) and to the Employee Benefit Trust in order to meet employee exercise of share options. The average market value was 223.3 pence on the days of allotment.

Accounting policy

Share capital and reserves

Share capital represents the nominal value of the shares that have been issued.

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

Equity reserve represents the value of the Employee Benefit Trust (EBT) that gets offset against distributable reserves and equity-settled share-based employee remuneration until such share options are exercised.

Foreign exchange reserve represents the exchange difference on consolidation of overseas subsidiaries.

Retained earnings include all current and prior period retained earnings.

18. EMPLOYEE REMUNERATION

Remuneration recognised for employee benefits (including Directors) are analysed below.

Staff costs for all employees, including Directors, consist of:

	31 May 2016 £'000	31 May 2015 £'000
Wages and salaries	10,603	10,933
Social security costs	1,084	1,048
Pension costs	92	84
Share-based compensation	738	767
	12,517	12,832

Included in the above payroll costs for the year ended 31 May 2016 is £7,954,705 (2015: £4,021,039) capitalised within intangible fixed assets (see note 7). Pension costs relate to contributions to the parent company's defined contribution scheme for auto enrolment.

The average number of employees, including Directors, during the period was:

	31 May 2016 £'000	31 May 2015 £'000
Research and development	267	258
General and administrative	14	15
	281	273

18. EMPLOYEE REMUNERATION CONTINUED

Remuneration of Directors

	31 May 2016 £'000	31 May 2015 £'000
Directors' emoluments	609	540
Non-Executive fees	20	20
Non-Executive consultancy fees	60	60

Emoluments of highest paid Director

	31 May 2016 £'000	31 May 2015 £'000
Emoluments	209	180

Remuneration of key management personnel

	31 May 2016 £'000	31 May 2015 £'000
Short-term employee benefits		
Salaries including bonuses	1,401	1,321
Social security	178	168
Pension contributions	13	12
Benefits in kind	8	7
Total short-term employee benefits	1,600	1,508
Non-Executive fees	60	50
Share-based compensation charge	351	488
Total	2,011	2,046
Number of key management personnel, including Directors, at the statement of financial position date*	13	14

* Key management of the Group are the Board and senior management (functional heads).

A total of 8,000 share options were issued in the year to key management under the Company Share Option Plan. The number of options exercised for Ordinary Shares in the year ended 31 May 2016 was 223,600 from previous EMI grants.

Accounting policy

Employee benefits

All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability.

The parent company operates a defined contribution retirement benefit scheme which was commenced on 1 January 2014 ahead of the Company's expected auto enrolment date. Payments to defined contribution retirement benefit schemes are charged as an expense in the period to which they relate.

19. SHARE OPTIONS

The Group has a Company Share Option plan for employees, under which options may be granted to employees (including Directors) to subscribe for Ordinary Shares in the Group. The scheme was approved in January 2014.

The Group operates two EMI schemes (Pre July 2013), a Company Share Option Plan (from January 2014), and an Unapproved scheme (Pre July 2013) and plan (from January 2014). The share option grants for employees vest between one and three years with a contractual term of ten years. The option holder must be employed by the Group at the time of exercise. The unapproved options carry similar conditions as the main Company Share Option Plan, except for one tranche issued on 15 September 2014 that had a shorter vesting period of one year.

Date of grant	Scheme type	Period when exercisable	Price in pence	2016 Number	2015 Number
6 December 2005	2002 EMI scheme	2006–2015	67	–	443,400
30 July 2012	2013 EMI scheme	2012–2022	89	722,523	789,223
15 May 2013	2013 EMI scheme	2014–2023	95	224,000	228,000
21 March 2014	Company Share Option Plan	2017–2024	224.5	206,000	228,000
15 September 2014	Company Share Option Plan	2017–2024	257.5	283,950	291,950
15 September 2014	Unapproved	2017–2024	257.5	626,850	649,850
15 September 2014	Unapproved	2015–2024	257.5	288,350	288,350
10 March 2015	Company Share Option Plan	2018–2025	230	175,600	232,100
10 March 2015	Unapproved	2018–2025	230	8,200	8,200
21 September 2015	Company Share Option Plan	2018–2025	193.5	144,800	–
21 September 2015	Unapproved	2018–2025	193.5	47,400	–
				2,727,673	3,159,073

A number of share warrants around the IPO and subsequent share options for Non-Executive Directors are as follows:

Date of grant	Warrant type	Period when exercisable	Price in pence	2016 Number	2015 Number
8 July 2013	Unapproved pre–IPO warrants*	2013–2023	95	65,790	65,790
15 July 2013	Unapproved IPO warrants**	2013–2015	127	15,748	232,832
15 July 2013	Unapproved IPO warrants*	2013–2023	127	147,638	147,638
10 March 2015	Unapproved Options	2018–2025	193.5	25,000	–
				254,176	446,260

* These share options were issued to the Non-Executive Directors (including Rockspring, which is a company controlled by David Gammon) at the prevailing market price.
** Of these share options 217,084 were issued to Canaccord Genuity Limited for services rendered as part of the IPO process, which were exercised in July 2015, and 15,748 to Adam Glinsman for services rendered as part of the IPO process, a pre-IPO investor upon listing at the flotation price.

19. SHARE OPTIONS CONTINUED

Movements in the number of employee and Non-Executive share options outstanding and their related weighted average exercise price are as follows:

	Group and Company year ended			
	31 May 2016		31 May 2015	
	Number	Weighted average exercise price in pence	Number	Weighted average exercise price in pence
Opening balance	3,372,501	181.9	2,440,426	100.0
Granted	193,200	193.5	1,512,450	216.6
Exercised	(508,100)	70.9	(496,375)	78.7
Forfeited	(91,500)	226.3	(84,000)	210.4
Closing balance	2,966,101	157.0	3,372,501	181.9
Exercisable at the year end	1,159,951	95.3	1,674,051	87.6

The weighted average share price at the date of exercise of the share options was 217.3 pence. The share based compensation charge in the profit and loss was £738,020 of which £10,287 was in respect of warrants.

The share options at the end of May 2016 including those for Non-Executive Directors but excluding those of third parties have a weighted average contractual life as follows:

		Group and Company year ended			
		31 May 2016		31 May 2015	
Expiry date	Exercise price per share Pence	Options Number	Weighted average remaining contractual life Months	Options Number	Weighted average remaining contractual life Months
December 2015	67	–	–	443,400	7
July 2022	89	722,523	72	789,223	84
May 2023	95	224,000	84	228,000	96
July 2023	95	65,790	86	65,790	98
July 2023	127	147,638	86	147,638	98
March 2024	224.5	206,000	94	228,000	106
September 2024	257.5	1,199,150	100	1,230,150	112
March 2025	230.0	208,800	106	240,300	118
September 2025	193.5	192,200	111	–	–
Total		2,966,101	91	3,372,501	90

Under the rules of the new Company Share Option Plan, options are not exercisable until three years from the date of the grant. There are no performance conditions attaching to the options. The only vesting condition is continued service in the Company.

Fair value assumptions of share-based payments

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The estimate of fair value is measured using the Black-Scholes model. Details of the fair value granted in the period, together with the assumptions used in determining the fair value, are summarised below:

	September 2015	March 2015
Share price at date of grant (pence)	193.5	230
Exercise price	193.5	230
Expected time to expiry (years)	8.25	8.47
Risk-free interest rate (%)	2.9	4.3
Expected dividend yield on shares (%)	0	0
Expected volatility of share price (%)	34	38
Fair value of options granted (pence)	86.8	123.4

The assumptions of volatility for the September 2015 round are based on statistical analysis of share price data from the listing on AIM.

Employee Benefit Trust (EBT)

On 5 December 2014 the Company set up an Employee Benefit Trust for the purposes of allowing employees to exercise their share options, including the choice of being able to do this on a cashless exercise basis. The exercise of options are approved by the Board at each Board meeting, outside of share dealing closed periods, under a letter of recommendation to the Trustees of the EBT. The fulfilment of the share option conversions, whether by issue of shares to the EBT or market purchases, is also made at the same time. The EBT is limited under ABI guidelines to holding not more than 10% of the Ordinary Share capital of the Group. The Trustees are appointed by Estera Trust (Jersey Limited) (formerly Appleby Trust (Jersey) Limited), who administer the trust. The number of share options exercised by employees in the year and fulfilled as part of these arrangements was 508,100 Ordinary Shares. The EBT purchased 195,899 Ordinary Shares from the market and 218,146 Ordinary Shares from employees exercising under the cashless options. The EBT had no other assets or liabilities at 31 May 2016 outside of its interest in 230,400 Ordinary Shares, and £1,353,770 (2015: £550,766) was the drawndown balance from the £10 million facility provided by the Company.

Accounting policy

Share-based payment transactions

Share options are periodically granted to staff. Share options are measured at fair value at the date of grant and recognised over the vesting period of the option. Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model is an estimate of the likely average expiry date of the options by reference to the current rate of exercise by employees. The share-based payment is recognised as an expense in profit or loss, together with a corresponding credit to an equity reserve. This expense is recognised on a straight line basis based on the Group's estimate of the number of shares that will vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to those estimated on vesting. Upon exercise of share options, the proceeds received up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as share premium. Upon the exercise or lapsing of the grant a transfer of the cumulative value of the grant is made from the equity reserve to the profit and loss reserve.

20. TRADE AND OTHER PAYABLES

Trade and other payables recognised in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Trade payables	702	1,014	701	974
Intercompany payable	–	–	39	26
Accruals	1,635	1,792	1,627	1,779
Financial liabilities	2,337	2,806	2,367	2,779
Derivative financial instruments	388	–	388	–
Other taxation and social security	348	301	348	301
Total trade and other payables	3,073	3,107	3,103	3,080

Trade and other payables are due within one year. The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

21. CURRENT TAX LIABILITIES

Current tax liabilities in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Current tax liabilities	89	–	–	–

The Group current tax liability is £89,136. This is represented by a UK tax liability of £nil and the remainder attributed to Canada.

22. DEFERRED INCOME

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

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Deferred income – Self-published activities	2,233	723	1,762	723

£1,085,612 of deferred income is to be recognised within one year with the remaining £1,147,767 due within the next five and a half years (expected remaining life of the franchise period).

The deferred revenue is in respect of *Elite Dangerous* lifetime expansion passes purchased during the financial year, *Elite Dangerous: Horizons* revenue in respect of future promised content and *Planet Coaster* pre-orders.

The deferred lifetime expansion passes revenue will be released over the remaining franchise period after the first paid-for update has been released. *Elite Dangerous: Horizons* and *Planet Coaster* pre-orders revenue will be released when the product has been delivered to the customer. The carrying values of deferred income are considered to be a reasonable approximation of fair value.

23. PROVISIONS

Provisions for dilapidations

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Opening balance	260	223
Provided for in period	13	37
At period end	273	260

The dilapidation provision relates to the rental contracts for two office buildings (included within note 10). These leases expire in April 2020 and August 2020. The provision is based on the estimated costs of work to be performed to bring the buildings back to a state of repair and condition, similar to the start of the lease.

Accounting policy

Provisions for dilapidations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

24. FINANCE INCOME

Finance income may be analysed as follows for the reporting periods presented:

	31 May 2016 £'000	31 May 2015 £'000
Interest income from cash and cash equivalents	37	53

25. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of the charge in the period

	31 May 2016 £'000	31 May 2015 £'000
UK corporation tax based on the results for the year		
Overseas tax on the results for the period	94	–
Video Games Tax Relief credits (UK)	(207)	–
Deferred tax	(44)	(28)
Tax on profit on ordinary activities	(157)	(28)

(b) Factors affecting tax expenses

The tax assessed on the profit on ordinary activities for the year differs from the effective tax rate of corporation tax 19.6% (2015: 21.5%) as follows:

	31 May 2016 £'000	31 May 2015 £'000
Profit on ordinary activities before taxation	1,275	1,619
Tax on profit on ordinary activities at standard rate	250	347
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	297	236
Adjustments for opening deferred tax average rate	–	(2)
Research and development tax credits	(410)	(282)
Deferred tax	44	–
Exercise of share options	(159)	(163)
Losses to carry forward	(179)	(164)
Total amount of tax	(157)	(28)

Factors that may affect future tax charges

The Group takes advantage of the enhanced tax deductions for research and development expenditure in the UK and expects to continue to be able to do so. From 1 April 2014 the Video Games Tax Relief became available and the Group expects that some of its projects will qualify for this relief. Claims of £207,087 were received post period and recognised; a further claim of £664,761 has been made, but not yet received nor recognised.

Accounting policy

Income taxes

Income tax expense comprises the current and deferred tax.

Current income tax liabilities comprise those obligations to fiscal authorities relating to the current or prior reporting period that are unpaid at the statement of financial position date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement, except where it relates to items outside profit or loss. Tax relating to items in other comprehensive income is recognised in other comprehensive income and tax relating to items directly in equity is recognised directly in equity.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. However, deferred tax is not provided on the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax liabilities are always provided in full. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date.

Deferred tax is recognised as a component of tax expense in the income statement. Deferred tax relating to items directly in equity is recognised directly in equity and deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income.

Tax credits

The UK and Canada offer tax credits which are reported 'above the line', meaning that they are reported within the operating result. The Group recognises these on the likelihood of their receipt, taking into account any uncertainty in the claims, including uncertainty that arises in the first year of any claim for a new credit.

26. 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. Separate calculations have been performed to adjusted operating profit as shown for adjusted items in note 5.

	31 May 2016	31 May 2015
Profit attributable to Shareholders (£'000)	1,432	1,647
Weighted average number of shares	33,812,840	33,513,575
Basic earnings per share (pence)	4.2	4.9

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

	31 May 2016	31 May 2015
Profit attributable to Shareholders (£'000)	1,432	1,647
Diluted weighted average number of shares	35,302,973	35,346,221
Diluted earnings per share (pence)	4.1	4.7

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

Weighted average number of Ordinary Shares	31 May 2016	31 May 2015
Ordinary Shares	33,812,840	33,513,575
Under option	1,490,133	1,832,647
Diluted average number of shares	35,302,973	35,346,221

The calculation of the adjusted earnings per share, based on the adjusted operating profit / (loss) as shown in detail in note 5, is as follows:

	31 May 2016	31 May 2015
Adjusted Operating (loss) / profit attributable to shareholders (£'000)	(2,691)	2,466
Weighted average number of shares	33,812,840	33,513,575
Adjusted basic (loss) / earnings per share (pence)	(8.0)	7.4
Weighted average number of shares (diluted)	35,302,973	35,346,222
Adjusted diluted earnings per share (pence)	(8.0)	7.0

27. RELATED-PARTY TRANSACTIONS

Two Shareholders receive ongoing royalties or commission as a percentage of royalty sales for some of the Group's video games launched in prior periods.

			Group and Company year ended	
	31 May 2016 £'000	31 May 2016 £'000	31 May 2015 £'000	31 May 2015 £'000
Connected party	Expense paid	Creditor balance	Expense paid	Creditor balance
Chris Sawyer – royalties	84	–	58	–
Marjacq Micro Limited – sales commission	19	–	33	–

	Group and Company year ended	
	31 May 2016 £'000	31 May 2015 £'000
Connected party	Change in value of loan expense paid	Change in value of loan
Employee Benefit Trust – Share options exercised by employees	129	(63)
Employee Benefit Trust – Shares issued and market purchases	675	614
Movement in year	804	551
Opening loan balance	550	–
Closing loan balance	1,354	551

28. FINANCIAL INSTRUMENT RISKS

Risk management objectives and policies

The Group is exposed to various risks in relation to financial assets and liabilities. Financial assets and liabilities by category are summarised in note 11. The main types of risks are credit risk, currency risk and liquidity risk.

The Group's risk management is co-ordinated in close co-operation with the Board of Directors and focuses on actively securing the Group's short to medium-term cashflows.

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

28.1 Credit risk

The Group's exposure is limited to the carrying amount of financial assets and cash and cash equivalents recognised at the year end date (as summarised in note 11).

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

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

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

28.2 Foreign currency risk

The Group's reporting currency is Pounds Sterling (GBP). Exposure to currency exchange rates arises where transactions are in a currency other than the functional currency of the entity, primarily Canadian Dollars (CAD), US Dollars (USD) and Euro (EUR).

The Group has entered into several forward contracts during the financial year in order to mitigate the risk of US currency movements. The closing value of the contracts has been disclosed within financial assets, and accounted for at fair value through the profit and loss.

The carrying amounts of the Group's Canadian Dollar, US Dollar and Euro denominated monetary assets outside the functional currency of the entity at the reporting date are as follows:

	Consolidated year ended 31 May 2016			Company year ended 31 May 2016			Consolidated year ended 31 May 2015			Company year ended 31 May 2015		
	CAD £'000	USD £'000	Euro £'000	CAD £'000	USD £'000	Euro £'000	CAD £'000	USD £'000	Euro £'000	CAD £'000	USD £'000	Euro £'000
Assets	553	1,404	301	728	878	301	9	2,229	55	9	2,195	55

In addition, some of the Group's revenue and overhead transactions are completed in a foreign currency. Transaction exposure is reduced through the use of currency bank accounts.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase or decrease in the Sterling exchange rate against all relevant currencies, albeit the main exposures are USD and EUR. An increase in Sterling would lead to a decrease in income and a decrease in equity.

	Consolidated year ended 31 May 2016 £'000	Consolidated year ended 31 May 2015 £'000	Company year ended 31 May 2016 £'000	Company year ended 31 May 2015 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	298	202	661	330
Equity	188	192	118	182

28. FINANCIAL INSTRUMENT RISKS CONTINUED

28.3 Liquidity risk analysis

Liquidity risk is the risk arising from the Group not being able to meet its obligations as they fall due. The Group manages its liquidity needs by carefully monitoring forecast cash inflows and outflows due in day-to-day business. Net cash requirements determine headroom or any shortfalls over the medium term. This analysis shows if there is a need to use the revolving credit facility, seek external funding or the need for securing finance from its shareholder base.

The Group's financial liabilities have contractual maturities as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
As at 31 May 2016				
Trade and other payables	2,281	56	–	–
As at 31 May 2015				
Trade and other payables	2,748	58	–	–

The Company's financial liabilities have contractual maturities as summarised below:

	Current		Non-current	
	Within 6 months £'000	Between 6 and 12 months £'000	Between 1 and 5 years £'000	Later than 5 years £'000
As at 31 May 2016				
Trade and other payables	2,311	56	–	–
As at 31 May 2015				
Trade and other payables	2,721	58	–	–

Financial assets used for managing liquidity risk

Cashflows from trade and other receivables are contractually due within six months.

Cash is generally held in accounts with immediate notice. Where surplus cash deposits are identified these are placed in accounts with access terms of no more than three months.

29. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objective is to ensure the Group's ability to continue as a going concern by securing sufficient funding through equity or debt.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the strategic plans of the business over a rolling three-year forecast. In order to maintain or adjust the capital structure and provide funds to support the planned growth, the Group may issue new shares or raise other funds through debt.

Capital for the reporting period under review is summarised as follows:

	Consolidated year ended		Company year ended	
	31 May 2016 £'000	31 May 2015 £'000	31 May 2016 £'000	31 May 2015 £'000
Total equity	22,764	20,887	22,358	20,371
Borrowings (includes current element)	–	–	–	–
Less cash and cash equivalent	(8,610)	(10,478)	(7,531)	(10,203)
Total capital	14,154	10,409	14,827	10,168

30. ULTIMATE CONTROL

The Directors consider that David Braben has a majority control of the Group by reference to his shareholding interest.