

# BUILDING ON OUR SELF-PUBLISHING SUCCESS

After successfully proving our ability to launch franchises, we are scaling up to deliver roughly one major launch per year and achieve our long-term ambition of becoming a global leader in entertainment.



Frontier's founder David Braben began his work in games back in 1982 when he co-authored the seminal game Elite. David founded Frontier in 1994 in order to build a team to continue creating high quality, innovative games in the rapidly evolving games industry with an ambition that only teams of skilled professionals can deliver.

Frontier has thrived over the subsequent three decades. We have built a uniquely diverse catalogue of games – enabled by our Cobra technology – that has defined genres, earned critical acclaim and won a place in the hearts of millions of players.

Having worked with a succession of top publishers we now self-publish our own high quality, innovative games of different genres that embody our world-class expertise across all major gaming formats.

## STRATEGIC REPORT

- 01 Highlights
- 02 Frontier at a glance
- 03 Chairman's Statement
- 04 Chief Executive's Statement
- 06 Our strategy and business model
- 08 Our franchises
  - 08 Elite Dangerous
  - 10 Planet Coaster
  - 12 Jurassic World Evolution
- 14 Financial Review
- 16 Principal risks and uncertainties

## CORPORATE GOVERNANCE

- 18 Board of Directors
- 20 Report of the Directors
- 22 Corporate Governance Report
- 25 Remuneration Report

## FINANCIAL STATEMENTS

- 27 Independent Auditor's Report
- 28 Consolidated income statement
- 28 Consolidated statement of comprehensive income
- 29 Consolidated statement of financial position
- 30 Consolidated statement of changes in equity
- 31 Consolidated statement of cashflows
- 32 Notes to the financial statements
- 51 Company statement of financial position
- 52 Company statement of cashflows
- 53 Company statement of changes in equity

## ADDITIONAL INFORMATION

- 54 Notice of Annual General Meeting
- IBC Five year summary
- IBC Advisors and Company information

# TRANSITION COMPLETED

## Operational and strategic highlights

- The Company's transition to a fully self-publishing business model was completed in November 2016 with the successful launch of Frontier's second franchise, *Planet Coaster*. In July 2017 *Planet Coaster*'s first paid additional downloadable content was launched.
- Elite Dangerous*, which launched in December 2014, continues to perform well. In June 2017 the franchise's addressable audience was further expanded with release on the Sony PlayStation 4 platform.
- Frontier's next major game franchise, based on the *Jurassic World* movie franchise, was revealed in August 2017. *Jurassic World Evolution* is planned for launch in summer 2018 alongside the movie launch of *Jurassic World: Fallen Kingdom*.
- £17.7 million was raised in July 2017 through a strategic investment from Tencent, a leading Internet and interactive entertainment company based in China. This will improve and accelerate Frontier's growth into the key Chinese market and help drive scale-up of the business.

## Financial highlights

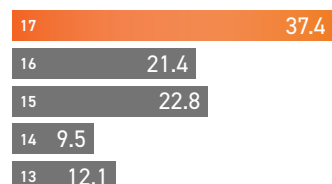
- Total revenue grew 75% to £37.4 million (FY16: £21.4 million) as the launch of the *Planet Coaster* franchise in November 2016 drove a step-up in annual sales.
- Self-publishing revenue of £36.4 million (FY16: £21.1 million) accounted for 97% of total revenue with the balance being related to our legacy work-for-hire business.
- Operating profit grew by 550% to £7.8 million (FY16: £1.2 million) representing an operating margin of 21% (FY16: 6%) and EBITDA increased to £12.7 million (FY16: £4.9 million).
- Operating cash flow (operating profit excluding non-cash items, less investments in franchises and other intangible assets) was an inflow of £3.4 million (FY16: outflow of £2.7 million).
- Cash balances increased £4.0 million during the year to £12.6 million (FY16: £8.6 million). Following the £17.7 million strategic investment by Tencent the Company's cash balance was £27.5 million on 31 August 2017.

## Financial KPIs

### Revenue (£m)

**£37.4m**

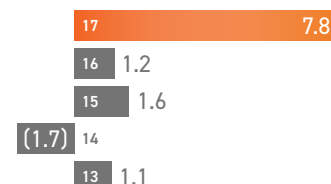
+75%



### Operating profit (£m)

**£7.8m**

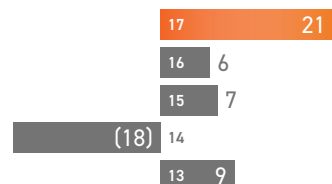
+550%



### Operating margin (%)

**21%**

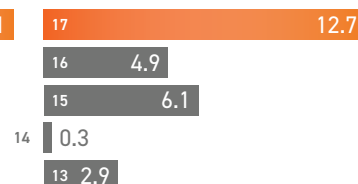
+15%



### EBITDA (£m)\*

**£12.7m**

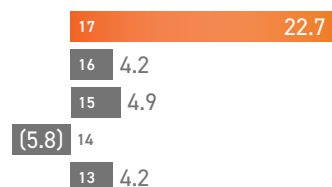
+159%



### EPS (basic) (p)

**22.7p**

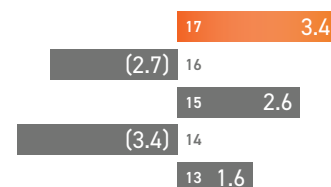
+440%



### Operating cash flow (£m)

**£3.4m**

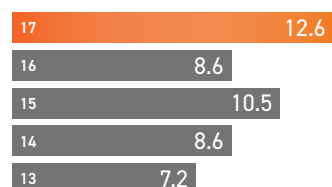
+610%



### Net cash balance (£m)

**£12.6m**

+47%



\* Earnings before interest, tax, depreciation and amortisation



Read this report online:

**AR.FRONTIER.CO.UK**

# EVOLVING OUR BUSINESS

Frontier's objective of transitioning to a business-to-consumer video game developer with multiple self-published revenue generating franchises has been successfully completed. The launch of our second franchise, *Planet Coaster*, combined with continued strong performance from *Elite Dangerous* drove a step-up in all financial measures. Our third franchise, based on the Jurassic World movie franchise, is on track for launch in summer 2018.

After successfully proving our ability to launch franchises, our ambition is to continue our evolution to create a self-publishing multi-franchise success story. Ongoing investment in our people, organisation and facilities, supported by the proceeds from the £17.7 million strategic investment by Tencent completed in July 2017, will enable the business to continue scaling up.



## Elite Dangerous

Available for Windows PC, Apple Macintosh, Microsoft Xbox One and Sony PlayStation 4 Elite Dangerous – is the definitive massively multiplayer space epic, bringing gaming's original open world adventure to the modern generation with a connected galaxy, evolving narrative and the entirety of the Milky Way re-created at its full galactic proportions.

[WWW.ELITEDANGEROUS.COM](http://WWW.ELITEDANGEROUS.COM)

Read more from page **08**



## Planet Coaster

Available for Windows PC – Planet Coaster builds on Frontier's genre-defining expertise with coaster park games such as *RollerCoaster Tycoon 3* and *Thrillville*. It further raises the bar for this popular genre, allowing players to let their imaginations run wild as they surprise, delight and thrill incredible crowds, and share their success with the world via the Steam Workshop community.

[WWW.PLANETCOASTER.COM](http://WWW.PLANETCOASTER.COM)

Read more from page **10**



## JURASSIC WORLD EVOLUTION

Launching in summer 2018 for Windows PC, Microsoft Xbox One and Sony PlayStation 4 Jurassic World Evolution – evolves players' relationship with the Jurassic World film franchise, placing them in control of operations on the legendary islands of Isla Nublar and the surrounding islands of the Muertes Archipelago. Players will create and manage their own *Jurassic World* as they bioengineer new dinosaur breeds, and construct attractions, containment and research facilities. Every choice leads to a different path and spectacular challenges arise when 'life finds a way'.

[WWW.JURASSICWORLDEVOLUTIONGAME.COM](http://WWW.JURASSICWORLDEVOLUTIONGAME.COM)

Read more from page **12**

# SCALING UP



**DAVID GAMMON**  
NON-EXECUTIVE  
CHAIRMAN

**"I AM DELIGHTED WITH OUR RESULTS AND EXCITED ABOUT OUR FUTURE."**

I am pleased to report on a very satisfying year in Frontier's continued development. We completed the transition of our business to our chosen multi-franchise self-publishing model with the successful launch of our second franchise, *Planet Coaster*, and we are excited about the potential for our third franchise, *Jurassic World Evolution*. Meanwhile, *Elite Dangerous* continues to grow its addressable audience and is performing well.

Our long-term ambition is to become a global leader in entertainment and we are scaling up to continue our multi-franchise success story. Our recent strong self-publishing performance, as well as our long history of delivery and capability, positions us very well to achieve this. We have established a scale-up plan to achieve our next step which includes investments in people, organisation, geographical distribution and facilities. To support these plans we took a strategic investment from Tencent in July 2017, raising £17.7 million. This will enable us to further deepen the success of our franchises, reach new audiences, enrich the audience experience and continue to grow their number.

We continue to develop our organisation to fulfil our goals. In particular, we are focusing on our management teams and our infrastructure. As noted in last year's report, Jonathan Milner stepped down from the Board as a Non-Executive Director in July 2016 and Charles Cotton joined in his place. I would like to again express my

thanks to Jonathan, who was a great help during our transition. Charles has a successful worldwide track record in high-growth technology companies and has been a valuable source of advice and wisdom since he joined the Board. In April 2017 we further strengthened the Board with the appointment of Alex Bevis as CFO and Company Secretary. Alex brings extensive board experience as VP Finance and CFO of high technology growth companies from his work at CSR plc and Xaar plc.

I am delighted with our results and excited about our future. On behalf of the Board, I take this opportunity to thank our people for their dedication, engagement, skill and professionalism that has produced such pleasing progress for the Company.

**DAVID GAMMON**  
NON-EXECUTIVE CHAIRMAN  
7 September 2017

# CREATING FRANCHISES



**DAVID BRABEN**  
FOUNDER AND CEO

**“I WOULD LIKE TO THANK OUR AMAZING TEAM WHO HAVE ACHIEVED SO MUCH SINCE OUR DECISION TO TRANSITION OUR BUSINESS FOUR YEARS AGO.”**

In 2013 we set out our plan to transition the business from work-for-hire to multi-franchise self-publication. The rise of digital distribution was the catalyst for our change, and our extensive experience in the games industry gave us the confidence to make the switch.

Four years later I am delighted with our achievements; we have overcome a number of challenges to transform our business model with two successful franchises, *Planet Coaster* and *Elite Dangerous* already in the market, and more to come. Our next major development, *Jurassic World Evolution*, is progressing well, and is scheduled for launch in summer 2018. I would like to thank our amazing team who have achieved so much since our decision to transition our business four years ago.

## THE GAMES MARKET

We operate in an exciting industry. The games market is now the premier form of entertainment worth over \$100bn per year, in the wider \$300bn entertainment industry. That's larger than each of the film, TV or music industries, with the games sector overtaking film in 2017. The games sector is growing fast, increasing at 8% per year, with TV experiencing a decline of 8%.

Today the games market is split into three roughly comparable sectors by revenue: PC, console and mobile. However, the characteristics of each sector are quite different. Frontier has chosen to prioritise the PC and console sectors where audiences value high quality games, and that quality is a key determinant of success. In contrast the mobile sector is overcrowded, so success can be a lot more hit-and-miss.

The whole market is moving rapidly to digital downloads. Mobile and PC are now almost 100% digital, and consoles are at approximately 50% but are quickly moving to digital downloads, as focus moves from older consoles to the new generation, and older business models are gradually replaced.

There are already some very large and well established companies in the games market; for example EA and Activision Blizzard both based in the US, who have a combined value of over \$80 billion. The nature of our industry is change and evolution, and it is interesting to see the rapid development of companies like Valve Inc (with their Steam platform) in the US and Tencent in China, based on their focus on the opportunities that digital distribution presents. It is also clear that the model Frontier has already adopted – supporting our games continually with community and regular updates: essentially 'games as a service' – is working very well,

and has meant that the two franchises already released have continued to perform.

## STRATEGY

We believe that publishing our own franchises is the best way to maximise the benefit of our core skills and our assets and our COBRA technology platform. 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. 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 follow our repeatable model; to create further franchises in potentially successful but under-served sectors where we have key expertise and knowledge and/or IP, in order to further build our revenue pipeline over the long term.

Our strategic objective is to create long-term sustainable growth through success in a multi-franchise self-publication business model. Our strategic focus is on two key areas:

- developing our business to achieve repeatable success; and
- creating and managing franchises

Further detail is set out in the strategy section of this report, but I'd like to briefly comment on the first area.



# CURRENT TRADING AND OUTLOOK

We believe that developing our business to achieve repeatable success requires scale. Over time we aim to double our output, from roughly one major launch every two years, to one every 12 months or so. To do this we will grow our capability to accelerate our progress, although it does not mean we need to double our workforce. We have established a scale-up plan, to expand our team and to invest in facilities and organisational development.

Strong partnerships have always been vital to our success. In our past as a work-for-hire developer we worked successfully with many prestigious industry partners including Atari, Lucasfilm, Microsoft and Sony, and became well-known in the games industry for our development track-record of innovation, quality and delivery.

Our new business model of self-publication has required us to build new partnerships. Our commercial partners now include Valve Inc (with its Steam platform), Humble Store and the distribution channel teams at both Microsoft and Sony; we are also excited to be partnering with Universal on the *Jurassic World Evolution* project.

I look forward to working with Frontier's people and our partners to build on our early self-publishing success and establish a new long-term, self-published track record of quality, innovation and delivery as we scale-up to create a multi-franchise success story.

**DAVID BRABEN**  
**FOUNDER AND CEO**  
 7 September 2017

The Board have been encouraged by trading since the year end (31 May 2017). The number of players of Frontier's games continues to grow. In August 2017, *Planet Coaster*, which launched in November 2016, passed 1 million cumulative unit sales, and *Elite Dangerous*, which launched in December 2014, exceeded 2.75 million cumulative franchise unit sales.

We have further expanded the addressable audience for *Elite Dangerous* by launching on PlayStation 4 in June 2017. During the summer *Planet Coaster* and *Elite Dangerous* participated in successful price promotions on our major distribution channels with the Steam and Xbox Summer Sale events. These events were in turn supported by major updates for each game as we followed our strategy of continuing to further enhance the experiences they deliver.

We launched our first in-game Paid Downloadable Content (PDL) for *Planet Coaster* in July 2017, and announced that *Elite Dangerous 2.4 'The Return'* will be released in September 2017 which supports the on-going story arc related to Thargoids, the franchise's first alien species.

In August 2017 we announced that our third franchise, *Jurassic World Evolution*, will launch in summer 2018 on PC, PlayStation 4 and Xbox One simultaneously.

In 2015, Universal Pictures' *Jurassic World* became one of the biggest blockbusters in cinema history, grossing more than \$1.67 billion at the global box office on its way to becoming the third-highest-grossing film of all time. *Jurassic World Evolution* will launch in the year that Universal Pictures' celebrates the 25th anniversary of the original *Jurassic Park* film, and the next chapter of the franchise *Jurassic World: Fallen Kingdom* will be in theatres June 2018.

We anticipate that the next step-up in our financial performance will be delivered by the launch of *Jurassic World Evolution* in summer 2018. The Board currently expect that the majority of initial revenues from this new franchise will fall into the financial year ending 31 May 2019, as the *Jurassic World: Fallen Kingdom* movie is released in June 2018. The Board therefore anticipates that trading in the current financial year, the twelve months ending 31 May 2018, will principally be based on sales from the *Elite Dangerous* and *Planet Coaster* franchises.

The Board is excited about the growth opportunities ahead in the coming years, as existing franchises continue to be strengthened and new franchises are developed and launched. Frontier is developing, evolving and investing in our people, organisational structure and facilities to effectively create, develop, market and sell even more distinct franchises aimed at different audience segments to achieve the Company's ambition to create a self-publishing multi-franchise success story.

# DEVELOPING OUR BUSINESS TO ACHIEVE REPEATABLE SUCCESS

We invest our development resources in games with strong franchise potential. In order to maximise the return on our core skills and assets we target game genres where we have established expertise and intellectual property.

## How we create and nurture our franchises



We continue to invest in our organisation to create a model of repeatable success. To accelerate our progress and increase the frequency of launches we are scaling up our organisation, not just in terms of staff numbers, but also in terms of leadership skills, training, organisational structure and process.

We are also investing in facilities. It is our belief that having all our people in Cambridge working together in a single building will maximise our operational effectiveness and efficiency, and in spring 2018 we will achieve this when we move into new office space on the Cambridge Science Park.

Our development focus is on PC and console titles, as together these segments represent the majority of the available market by revenue and generally the audiences on these platforms have valued games that exhibit Frontier's key development strengths.

We use online channels to create and engage with a fan-base or community during game development, which provides a valuable source of feedback and an enthusiastic community for each franchise before first release.

Our development process uses our proprietary COBRA development tools and technology to facilitate innovative features and the creation of top quality self-published games with strong differentiation for the PC and console audiences. Our control of this technology also removes risk related to ongoing access to third party licensed technology alternatives, risk relating to ability to fix uncovered problems in that technology and lack of control over the delivery dates and feature roadmap of such solutions. It also facilitates rapid response to market opportunities like support for virtual reality and augmented reality.

We continue to assess the distribution channels and platforms we use to achieve an optimal addressable audience for each game, and the monetisation strategy for each franchise. We participate in price promotions on each of the distribution platforms we use for each of our games as appropriate to its life-cycle stage, allowing us to reach the widest possible audience.

We also monitor the geographical performance of our franchises and will continue to look for opportunities to tailor our local price to

a level more appropriate to the local economy, as we did with Planet Coaster in China in February 2017. In particular we note the growing Chinese market for premium PC games. Importantly, the recent strategic investment in our business by Tencent will allow us to more easily take advantage of their unparalleled expertise and distribution capabilities in their home market for our franchises.

Major new releases will be key drivers of revenue. Because of the small number of franchises and relatively infrequent major releases Frontier is currently able to make, revenue is sensitive to the specific schedule of such releases and may therefore exhibit 'stepped' behaviour, as those new franchises are released. In the future, as we successfully scale the number and frequency of franchise releases, annual revenue growth should accelerate and our dependency on each major release should decrease.

# CREATING AND MANAGING FRANCHISES

In order to maximise the return on our core skills and assets we target game genres on PC and console platforms where we believe we can both i) deliver high quality, differentiated offerings using our established expertise and intellectual property, and ii) have a strong chance of successful market entry, based on past experience or knowledge of that sector.

We use this repeatable model to invest our resources with the intention of creating world-class games with strong franchise

potential, and plan for strong post-launch franchise support to further help realise this potential.

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 as well as 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, marketing, distribution channels and charging models through investing in the necessary people, organisation, resources and infrastructure.



## ELITE DANGEROUS

Continuing to blaze a trail

Read more from page **08**



## PLANET COASTER

Redefining a popular genre

Read more from page **10**



## JURASSIC WORLD EVOLUTION

Building our own Jurassic World

Read more from page **12**

# FUTURE FRANCHISES

We are already scaling up for the future so we can release new games more frequently whilst continuing to develop our existing franchises. As well as *Jurassic World Evolution* being in full production we are in the early stages of planning our next two, as yet unannounced franchises.

All future franchises will be selected using the same approach described above that was used for *Elite Dangerous*, *Planet Coaster* and *Jurassic World Evolution*. The use of external IP in *Jurassic World Evolution* does not imply that this will be the case for all our future franchises; we will continue to

review all possibilities to determine the optimum strategy for each franchise on a case-by-case basis. We are building a broad portfolio of franchises, each different to the last, and each with the capabilities to expand over time, as we have already seen with *Elite Dangerous* and *Planet Coaster*.





## CONTINUING TO BLAZE A TRAIL

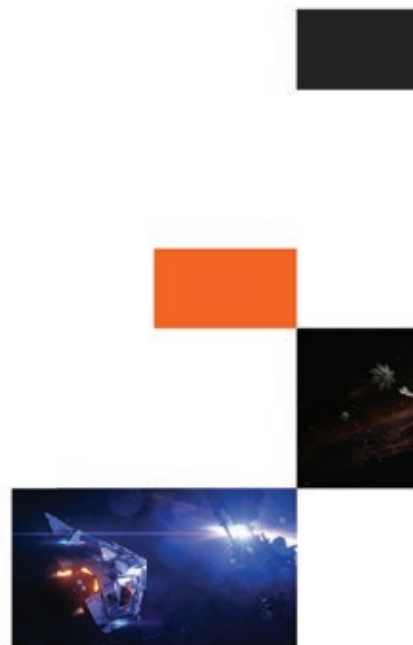
*Elite Dangerous* is now in its third year of full release. We have continued to release expansions in the *Elite Dangerous: Horizons* season, and corresponding updates to the original *Elite Dangerous* game, simultaneously on both PC and Xbox One platforms following the launch of Horizons on Xbox One in June 2016.

Simultaneous releases on all supported platforms is planned to continue going forward, including Sony's PlayStation 4 following the franchise's debut on the platform in June 2017, after the end of the financial year, which significantly expanded its addressable audience.

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 attach rate of *Elite Dangerous: Horizons* to the base game continues to grow steadily, helped by the regular updates.

Having the base game and *Horizons* seasons of expansions in the market covers mid-price entry to the franchise with an upgrade path, and we bundle the two together with in-game digital items to create a Deluxe edition for a premium price point entry. We believe each product in the franchise offers great value, and our further in-game monetisation avoids 'pay-to-win' game mechanics.

The *Elite Dangerous* franchise continues to perform strongly and we continue to focus on enhancements within the strategy of further improving perceived quality and sentiment, adding significant long-term new features and supporting the unique evolving player-driven story, which all players experience together. We expect to further expand the player base over the next financial year, adding new content and increasing the audience.

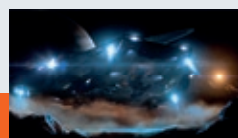


### The Horizons season of expansions

Each expansion offers new headline gameplay features plus a large number of quality of life and other tweaks, fixes and improvements, and there is an accompanying '1.x' update to the base game.

The release of 2.4 'The Return' will complete the Horizons season of expansions. Horizons will continue to be sold as a substantial expansion product with all content available at the time of purchase.

2.0

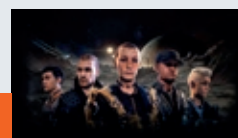


### PLANETARY LANDINGS

**DECEMBER 2015**

Expanded gameplay to planetary surfaces for the first time.

2.1



### THE ENGINEERS

**MAY 2016 (PC),**

**JUNE 2016 (XBOX ONE)**

Added loot and crafting mechanics to the game to allow players to upgrade the performance of their ship and weapons.



2.2



## THE GUARDIANS

OCTOBER 2016

Expanded the gameplay possibilities of each ship by adding ship-launched fighters.

2.3



## THE COMMANDERS

APRIL 2017

Offered the ability for multiple players to crew a ship and represented player characters in game with sophisticated customisation options.

2.4



## THE RETURN

SEPTEMBER 2017

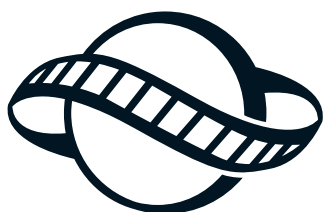
Supports the ongoing story arc related to Thargoids, the franchise's first alien species, and their interactions with humans in the *Elite Dangerous* galaxy.

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## FUTURE DEVELOPMENT

### ONGOING

We have announced that the 'season pass' business model will be superseded by an alternative after the release of 2.4 The Return.



# PLANET COASTER®

## REDEFINING A POPULAR GENRE

*Planet Coaster* was successfully launched in November 2016 after a short Beta period, achieving the global #1 position on the Steam distribution channel and continuing to sell strongly through the subsequent holiday period.

In accordance with our strategy we began to release free updates, each of which add headline features but also expand and improve different creative and management aspects of the game.

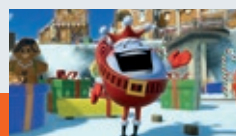
This update strategy is intended to further improve perceived quality and sentiment by adding significant long-term new features. Such updates add to the quality of the game, renew the interest of existing players, and also generate additional coverage resulting in new sales.



### Continued expansion after a successful launch

In addition to major free expansions, in July 2017 we released our first paid downloadable content (PDLC) for *Planet Coaster*. As with *Elite Dangerous*, this follows an in-game monetisation model that avoids 'pay-to-win' mechanics. We will continue to expand *Planet Coaster's* PDLC offering, as we have with *Elite Dangerous*.

We believe *Planet Coaster* offers great value at its current price-point and we anticipate franchise revenue over multiple years, similar to that seen with our *RollerCoaster Tycoon 3* game from 2004 in the same genre.



1.1

### WINTER UPDATE

DECEMBER 2016

In addition to new rides being added, there were further improvements to streamline management operations within parks, new scenarios, new shops, new transport rides and a new snowy winter theme.



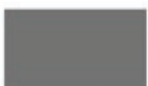
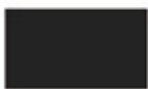
1.2

### SPRING UPDATE

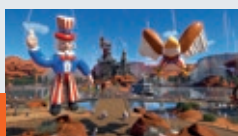
APRIL 2017

Added security guard staff members and go-karts tracked rides for players to use in their parks, along with more rides, coasters, scenarios and further management improvements, as well as doubling the maximum size of blueprints that can be shared via Steam workshop to 4,000 pieces.





1.3



## SUMMER UPDATE

**JUNE 2017**

Added customisable firework displays and video billboards for players to place in their parks, as well as more rides, coasters, scenarios and further management improvements plus a new Stars and Stripes scenery set.

1.33

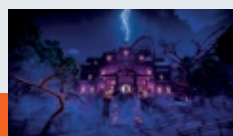


## PAID DLC

**JULY 2017**

Released our first paid downloadable content (PDLC). As with *Elite*, this follows an in-game monetisation model that avoids 'pay-to-win' mechanics. We will continue to expand *Planet Coaster's* PDLC offering, as we have with *Elite Dangerous*.

1.38



## SPOOKY PACK

**SEPTEMBER 2017**

A new pack to *Planet Coaster* that adds a host of Spooky-themed content. With everything from scenery pieces, new rides, special effects, animatronics,

and a new entertainer, the spooky pack gives *Planet Coaster* players even more freedom to create and share awe-inspiring parks.

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## BUILDING OUR OWN JURASSIC WORLD

Our third franchise, *Jurassic World Evolution*, was identified using the same approach described above that we used for *Elite Dangerous* and *Planet Coaster*. Our original concept for *Jurassic World Evolution* would leverage our management and builder game expertise, plus our unrivalled expertise implementing believable in-game animals from games such as *Dog's Life*, *Kinectimals* and *Zoo Tycoon*. In this case we felt that being able to use the *Jurassic World* IP would significantly benefit awareness with the next film in the franchise to be released in June 2018, around the 25th anniversary of the original *Jurassic Park* film.

*Jurassic World Evolution* was announced in August 2017, for PC, Xbox One and PlayStation 4 and will be released in summer 2018.

*Jurassic World Evolution* evolves players' relationship with the *Jurassic World* film franchise, placing them in control of

operations on the legendary islands of Isla Nublar and the surrounding islands of the Muertes Archipelago. Players will create and manage their own *Jurassic World* as they bioengineer new dinosaur breeds, and construct attractions, containment and research facilities. Every choice leads to a different path, and spectacular challenges arise when 'life finds a way.'

*Jurassic World Evolution* will be Frontier's first self-published title (although not our first game) to debut on PC, PlayStation and Xbox simultaneously, and the first to benefit from such major marketing events in 2018 as the celebration of 25 years of *Jurassic Park* and the launch of the next film in the franchise, *Jurassic World: Fallen Kingdom*.

We will reveal more details about *Jurassic World Evolution* at FrontierExpo in London in October 2017, our first community event dedicated to all of Frontier's franchises.



### About Jurassic World: Fallen Kingdom

With all of the wonder, adventure and thrills synonymous with one of the most popular and successful franchises in cinema history, this all-new motion-picture event sees the return of favourite characters and dinosaurs – along with new breeds more awe-inspiring and terrifying than ever before. Welcome to *Jurassic World: Fallen Kingdom*.

Stars Chris Pratt and Bryce Dallas Howard return alongside executive producers Steven Spielberg and Colin Trevorrow for Universal Pictures and Amblin Entertainment's *Jurassic World: Fallen Kingdom*.

Pratt and Howard are joined by co-stars James Cromwell, Ted Levine, Justice Smith, Geraldine Chaplin, Daniella Pineda, Toby Jones, Rafe Spall, while Jake Johnson, BD Wong and Jeff Goldblum reprise their roles.

Directed by J.A. Bayona (*The Impossible*), the epic action-adventure is written by *Jurassic World*'s director, Trevorrow, and its co-writer, Derek Connolly. Producers Frank Marshall and Pat Crowley once again partner with Spielberg and Trevorrow in leading the team of filmmakers for this stunning instalment. Belén Atienza joins the team as a producer.

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# SIGNIFICANT STEP UP IN FINANCIAL PERFORMANCE



**ALEX BEVIS**  
CFO AND COMPANY  
SECRETARY

**“REVENUE GREW 75%  
AND OPERATING PROFIT  
INCREASED 550%”**

## OVERVIEW

The Company achieved a significant step-up in financial performance in the year ended 31 May 2017, as the transition from a work-for-hire business model to multi-franchise self-publishing was completed through the launch of *Planet Coaster* in November 2016. The addition of this second franchise helped boost annual revenue by over 75% to £37.4 million and operating profit grew by 550% to £7.8 million. Cash flow was also strong, with an increase of £4.0 million in the year to £12.6 million. Cash balances were further boosted by the £17.7 million strategic investment in July 2017; cash balances at 31 August 2017 stood at £27.5 million.

## TRADING

Total annual revenue grew 75% to £37.4 million (FY16: £21.4 million) as the launch of the *Planet Coaster* franchise in November 2016 drove a step-up in annual sales. The *Elite Dangerous* franchise continued to perform strongly in the year, supported by on-going developments to further improve quality, add new features and support the unique evolving player-driven story.

Self-publishing revenue accounted for 97% of sales (FY16: 99%) with the balance being related to our legacy work-for-hire business. This legacy revenue included COBRA licensing, as a publisher partner took up two options in FY17 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.

Gross profit grew to £27.4 million in the year (FY16: £16.3 million) with gross margin at 73% (FY16: 76%). The largest element of cost of sales is the margin payable to our digital distribution partners.

Gross research and development expenses in the period were £12.7 million (FY16: £12.6 million) with the majority of spend being internal staff costs. Capitalisation of development costs on franchise assets and other intangibles accounted for £9.6 million in FY17 (FY16: £8.9 million). Amortisation charges grew to £4.5 million (FY16: £3.3 million) following the launch of *Planet Coaster* in November 2016.

Net research and development expenses recorded in the income statement in the year were therefore £7.6 million (FY16: £7.0 million), being gross spend, less capitalised costs, plus amortisation charges.

Sales, marketing and administrative expenses grew £3.9 million to £11.9 million (FY16: £8.0 million). The increase was due to a combination of factors; investments in staff, facilities and marketing, higher bonus

charges and forward contract related foreign exchange losses.

The growth in revenue in the period resulted in a significant increase in profits. Operating profit grew by 550% to £7.8 million (FY16: £1.2 million) representing an operating margin of 21% (FY16: 6%) and EBITDA (earnings before interest, tax, depreciation and amortisation) increased to £12.7 million (FY16: £4.9 million).

Corporation tax charges in the period were minimal overall at £0.1 million (FY16: a credit of £0.2 million) despite the growth in profits. This was due to a combination of brought forward tax losses and Video Games Tax Relief.

Profit after tax increased to £7.7 million (FY16: £1.4 million) and basic earnings per share increased by a similar proportion (FY17: 22.7 pence, FY16: 4.2 pence).

## BALANCE SHEET AND CASH FLOW

The Company continued to run a robust balance sheet during the financial year, and this was further boosted by the strategic investment completed in July 2017.

Non-current intangible and tangible assets increased by £5.6 million to £22.6 million at 31 May 2017 (FY16: £17.0 million) as investments in franchise assets and other intangibles exceeded amortisation charges.

# FINANCIAL KPIs

The balance of trade and other receivables was £2.9 million at the end of the period (FY16: £2.4 million), lower than the trade and other payables balance which totalled £4.9 million (FY16: £3.1 million). The increase in payables was in part due to a higher bonus provision following the strong growth in financial performance.

Total deferred income reduced to £1.4 million at the period end (FY16: £2.2 million) as a result of the launch of *Planet Coaster*, as pre-sales in the previous financial year had been deferred.

Cash balances increased £4.0 million during the year to £12.6 million (FY16: £8.6 million). Operating cash flow (operating profit excluding non-cash items, less investments in franchises and other intangible assets) accounted for £3.4 million of the increase. (FY16: an operating cash outflow of £2.7 million).

Following the £17.7 million strategic investment by Tencent the Company's cash balance was £27.5 million on 31 August 2017. In addition the Company has a £4 million overdraft facility with Barclays. Frontier's scale-up plans, which include significant investments in people and facilities, are fully supported by existing financial resources.

## SHARE ISSUES

Employees exercised options over 359,150 Ordinary Shares during the 12 months to the end of May 2017. 241,150 of these Ordinary Shares were transferred under arrangements with the Employee Benefit Trust with the remaining 118,000 Ordinary Shares being newly issued shares.

In July 2017 the company completed a strategic investment with Tencent Holdings Limited. Tencent acquired 3,386,252 newly issued Ordinary Shares at 523.2 pence per share generating proceeds of £17,716,870.

## ALEX BEVIS

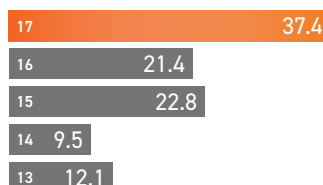
**DIRECTOR AND COMPANY SECRETARY**

7 September 2017

### Revenue (£m)

**£37.4m**

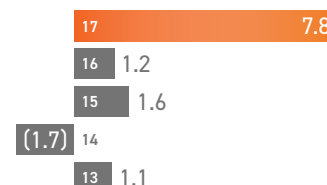
+75%



### Operating profit (£m)

**£7.8m**

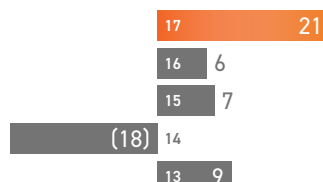
+550%



### Operating margin (%)

**21%**

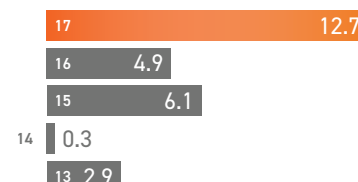
+15%



### EBITDA\* (£m)

**£12.7m**

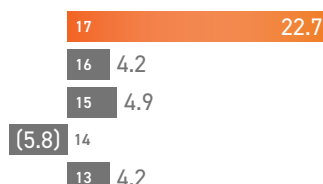
+159%



### EPS (basic) (p)

**22.7p**

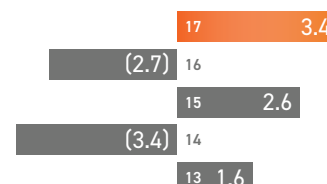
+440%



### Operating cash flow (£m)

**£3.4m**

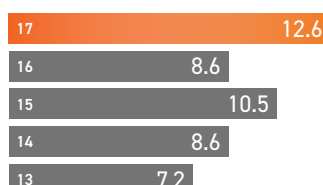
+610%



### Net cash balance (£m)

**£12.6m**

+47%








\* Earnings before interest, tax, depreciation and amortisation

# EFFECTIVELY MANAGING OUR RISKS

The Group faces competitive, strategic and financial risks that are inherent in a rapidly growing emerging market. The executive team maintains the risk register and escalates the key risks for further consideration at full Board level on a regular basis.




The key business and financial risks for the Group are set out below:

DESCRIPTION	MITIGATION	CHANGE IN RISK
<p><b>STAFF AVAILABILITY</b></p> <p>If the Group does not have the correct numbers of people with the correct skills available, the execution of its business plan will be compromised.</p>	<p>The Group continues to prioritise direct recruitment and outreach. We have visibility of our future needs via a regularly reviewed plan of record, and undertake analysis of potential bottlenecks. We seek to minimise days lost to sickness via healthcare benefits and general morale and wellbeing initiatives. The Group is a Tier 2 visa sponsor, to facilitate its objective to employ the best possible people from the worldwide talent pool. In 2017 we have expanded our HR team to add dedicated talent acquisition resources. We also balance internal and external resources through outsourcing.</p>	
<p><b>STAFF RETENTION</b></p> <p>Staff departures could create staff and key skill/experience shortages and compromise the execution of the Group's business plan.</p>	<p>Whilst there will unavoidably be some level of staff turnover, the Group believes that its attractive project portfolio, talented staff and good quality leadership make Frontier a place where talented people want to build their careers. We use our business success to deliver benefits to our people, and the Group is undertaking a programme of improving incentives and leadership skills which is intended to further enhance its attractiveness as an employer.</p>	
<p><b>CYBERSECURITY</b></p> <p>A breach of security could take many forms, and could significantly impact the business and impair our self-publishing plans.</p> <p>Exposure includes that of failure of security at our partners including Amazon, Valve, Microsoft and Sony.</p>	<p>We review our security provisions regularly and believe them to be in accordance with industry best practices.</p>	
<p><b>EXECUTION RISK</b></p> <p>The Group has transitioned from a work-for-hire model to a multi-franchise self-publishing model. Whilst successful project execution is very important under both models, inherently both the rewards and the risks under a self-publishing model are probably greater.</p>	<p>Frontier has a long history of strong project execution. Nevertheless it is vital Frontier continues to push itself and so avoid complacency to retain its excellent execution record. It must continue to challenge its own internal assumptions and those about the industry trends to remain at the forefront of the industry. The Group remains confident that it can use its experience and expertise to continue to deliver on the product, technology, commercial and operational aspects that support its strategy</p>	

**KEY**
 No change

 Increase

 Reduction

DESCRIPTION	MITIGATION	CHANGE IN RISK
<b>CURRENCY RISK</b> <p>The majority of Frontier's resources are located in the UK and therefore the Group's operating costs are mainly in Pounds Sterling (GBP). Sales are global, in multiple countries and in multiple currencies. The Group therefore has short term transaction and translation risks, in addition to the longer term economic risk of developing in the UK and selling worldwide. The largest exposure is the US Dollar (USD).</p>	<p>The Group has expanded its revenue sources and there has been a subsequent increase in revenue from non-GBP currencies in the last few years. Whilst the longer term economic risks of selling globally cannot be avoided, forward contracts have been used to gain certainty over the rate of conversion of foreign currency income. The Group will continue to review the most effective way of managing transaction and translation risks.</p>	
<b>GROWTH MANAGEMENT</b> <p>The Group's future success will depend on its ability to manage and fund its anticipated expansion. This includes the management of overseas-based subsidiaries and may include acquisitions. Such expansion and investment is expected to place demands on management, support functions and working capital. If the Group is unable to manage and fund its expansion effectively, its business and financial results could suffer.</p>	<p>In order to mitigate the risk, the Group is investing in suitable training for key staff and key internal systems. The Group has appointed experienced key Non-Executive advisors to ensure risks are managed objectively, and will continue to review its requirements for strategic advice. The Group prudently manages its liquidity by monitoring forecast cash in flows and out flows both in the short and medium terms, as well as its long-term investment needs and opportunities.</p>	
<b>MARKET DISRUPTION</b> <p>The Group operates in a fast moving industry where competitive products, larger competitors, new market trends or disruptive technology may emerge which reduce its ability to compete and execute its business plan.</p>	<p>Investing in its own COBRA technology and self-published games allows the Group to continue to innovate, and we seek to make our processes and business decisions agile and well informed so we can anticipate and exploit such changes. We believe this risk is mitigated by our track record of execution on new platforms and the flexibility demonstrated by the diverse range of video games we have successfully developed in the past.</p>	

This Strategic Report was approved by the Board and signed on its behalf by:

**ALEX BEVIS**

**DIRECTOR AND COMPANY SECRETARY**

7 September 2017