INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FRONTIER DEVELOPMENTS PLC
(REGISTERED NO: 02892559)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRONTIER DEVELOPMENTS PLC

We have audited the financial statements of Frontier Developments plc for the year ended 31 May 2017 which comprise the consolidated income statement, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cashflows, the parent company statement of financial position, the parent company statement of changes in equity, the parent company statement of cashflows and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 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 of assume responsibility to anyone other than the company and 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 Director's Responsibilities Statement set out within the Director's Report, 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 of 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 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 opinions:

- 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 2017 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTERS 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; and
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report.

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

JAMES BROWN
SENIOR STATUTORY AUDITOR
FOR AND ON BEHALF OF GRANT THORNTON UK LLP
STATUTORY AUDITOR, CHARTERED ACCOUNTANTS
CAMBRIDGE
7 September 2017

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MAY 2017

	Notes	31 May 2017 £'000	31 May 2016 £'000
Revenue	4	**37,363**	21,366
Cost of sales		**(10,007)**	(5,098)
Gross profit		**27,356**	16,268
Research and development expenses		**(7,630)**	(6,989)
Sales and marketing expenses		**(4,310)**	(3,887)
Administrative expenses		**(7,624)**	(4,154)
Operating profit		**7,792**	1,238
Finance income		**21**	37
Profit before tax	7	**7,813**	1,275
Income tax	8	**(102)**	157
Profit for the period attributable to shareholders		**7,711**	1,432

All the activities of the Group are classified as continuing.

	Notes	31 May 2017 p	31 May 2016 p
Earnings per share	9		
Basic earnings per share		**22.7**	4.2
Diluted earnings per share		**22.4**	4.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MAY 2017

	31 May 2017 £'000	31 May 2016 £'000
Profit for the period	**7,711**	1,432
Other comprehensive income:		
Exchange differences on translation of foreign operations	**57**	(4)
Total comprehensive income for the period attributable to the equity holders of the parent	**7,768**	1,428

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2017
(REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2017 £'000	31 May 2016 £'000
Non-current assets			
Intangible assets	10	**21,871**	16,690
Property, plant and equipment	11	**696**	304
		22,567	16,994
Current assets			
Inventories		**–**	9
Trade and other receivables	12	**2,941**	2,443
Other short-term assets		**510**	376
Cash and cash equivalents	13	**12,579**	8,610
		16,030	11,438
Total assets		**38,597**	28,432
Current liabilities			
Trade and other payables	14	**(4,894)**	(3,073)
Deferred income	15	**(459)**	(1,085)
Current tax liabilities	16	**(747)**	(89)
Provisions	17	**(275)**	–
		(6,375)	(4,247)
Net current assets		**9,655**	7,191
Non-current liabilities			
Provisions	17	**–**	(273)
Deferred income	15	**(927)**	(1,148)
		(927)	(1,421)
Total liabilities		**(7,302)**	(5,668)
Net assets		**31,295**	22,764
Equity			
Share capital	19	**171**	170
Share premium account		**14,601**	14,476
Equity reserve		**972**	579
Foreign exchange reserve		**(4)**	(61)
Retained earnings		**15,555**	7,600
Total equity		**31,295**	22,764

These financial statements were approved by the Directors on 7 September 2017 and signed on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY

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

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2015	168	13,963	633	(57)	6,180	20,887
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
Issue of share capital net of expenses	2	513	—	—	—	515
Share-based payment charges	—	—	738	—	—	738
Share-based payment transfer relating to option lapses	—	—	12	—	(12)	—
EBT share inflows from issues and/or purchases	—	—	(1,164)	—	—	(1,164)
EBT share outflows from option exercises	—	—	360	—	—	360
At 31 May 2016	170	14,476	579	(61)	7,600	22,764
Profit for the year	—	—	—	—	7,711	7,711
Other comprehensive income:						
Exchange differences on translation of foreign operations	—	—	—	57	—	57
Total comprehensive income for the year	—	—	—	57	7,711	7,768
Issue of share capital net of expenses	1	125	—	—	—	126
Share-based payment charges	—	—	687	—	—	687
Share-based payment transfer relating to option lapses	—	—	(244)	—	244	—
EBT share inflows from issues and/or purchases	—	—	(318)	—	—	(318)
EBT share outflows from option exercises	—	—	268	—	—	268
At 31 May 2017	**171**	**14,601**	**972**	**(4)**	**15,555**	**31,295**

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

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MAY 2017

	31 May 2017 £'000	31 May 2016 £'000
Cash generated from operations	**4,184**	(1,147)
Taxes received/(paid)	**456**	(126)
Cashflow from operating activities	**4,640**	(1,273)
Investing activities		
Purchase of property, plant and equipment	**(633)**	(233)
Expenditure on intangible assets (excluding capitalised development costs)	**(157)**	(108)
Interest received	**21**	37
Cashflow from investing activities	**(769)**	(304)
Financing activities		
Proceeds from issue of share capital	**125**	276
Employee Benefit Trust net investment	**(50)**	(563)
Cashflow from financing activities	**75**	(287)
Net change in cash and cash equivalents from continuing operations	**3,946**	(1,864)
Cash and cash equivalents at beginning of period	**8,610**	10,478
Exchange differences on cash and cash equivalents	**23**	(4)
Cash and cash equivalents at end of period	**12,579**	8,610

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2017 £'000	31 May 2016 £'000
Operating profit	**7,792**	1,238
Depreciation and amortisation	**4,864**	3,638
EBITDA	**12,656**	4,876
Capitalised development costs	**(9,647)**	(8,857)
Movement in unrealised exchange (gains)/losses on forward contracts	**(337)**	551
Share-based payment expenses	**687**	738
Operating cashflow	**3,359**	(2,692)
Net changes in working capital:		
Change in inventories	**9**	4
Change in trade and other receivables	**(479)**	603
Change in trade and other payables	**1,293**	925
Change in provisions	**2**	13
Cash generated from operations	**4,184**	(1,147)

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 subsidiary, Frontier Developments Inc. 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.

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.

Post year end a strategic inward investment of £17.7 million completed. This investment was by way of a share issue and supports the company growth projections for investing in future franchises.

3. ACCOUNTING POLICIES

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 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.

3. ACCOUNTING POLICIES CONTINUED

BASIS OF CONSOLIDATION CONTINUED

Standards and interpretations not yet applied

- 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).
- Disclosure Initiative Amendments to IAS 27 "Statement of Cash Flows" (effective 1 January 2017).
- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (effective 1 January 2017).
- IFRIC Interpretation 22 "Foreign Currency transactions and advance considerations" (issued on 8 December 2016) (effective 1 January 2018) (not yet endorsed).
- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (issued on 20 June 2016) (effective 1 January 2018) (not yet endorsed).

IFRS 15 Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. The Group is still reviewing the impact of IFRS 15.

IFRS 16 Leases

IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. IFRS 16 is not yet endorsed by the EU. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The standard may also require the capitalisation of a lease element of contracts held by the Group which under the existing accounting standard would not be considered a lease.

The Group is currently assessing the impact of the new standard. Work performed includes assessing the accounting impacts of the change and the data required. From work performed to date it is expected implementation of the new standard will have a significant impact on the consolidated results of the Group. On adoption, lease agreements will give rise to both a right of use asset and a lease liability for future lease payables. Depreciation of the right of use asset will be recognised in the income statement on a straight line basis, with interest recognised on the lease liability which will result in a change to the profile of the net charge taken to the income statement over the life of the lease. These charges will replace the lease costs currently charged to the income statement.

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

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 is 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 and moved to deferred income. An estimate of the final element is based on the number of man months it would take to complete the development and is released from deferred income when 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.

3. ACCOUNTING POLICIES CONTINUED

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS CONTINUED

Intangible assets capitalisation

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 2017 are £21,870,689 (2016: £16,689,747).

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 making 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.

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.

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
- software (third party software bought from suppliers for use within the Group's activities).

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.

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES CONTINUED

Intangible assets continued

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 their 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.

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	– 2 ½ 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.

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.

Cash and cash equivalents

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

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES CONTINUED

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 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 though profit and loss (FVTPL).

Employee benefits

All accumulating employee compensated absences that are unused at the balance sheet date are recognised as a liability within trade and other payables.

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.

Provisions

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.

Share capital and reserves

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

Share premium – 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 – This 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 – This represents the exchange difference on consolidation of overseas subsidiaries.

Retained earnings – Retained earnings include all current and prior period retained earnings.

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.

Revenue

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 both physical and digital.

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES CONTINUED

Revenue continued

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 crowdfunding 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 a customer buys membership to 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.

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.

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 that 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.

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.

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.

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES CONTINUED

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.

Transactions denominated in a foreign currency are translated at the rate of exchange ruling at a month-end rate in order to approximate to the 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.

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.

4. SEGMENT INFORMATION

The Group identifies operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker and reported to the Board. The chief operating decision maker is the Chief Executive Officer.

Management information is reported as one operating segment, being revenue from self-published franchises and other revenue streams such as royalties and licensing.

The Group does not provide any information on the geographical location of sales as the majority of revenue is through third party distribution platforms which are responsible for the sales data of consumers.

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

All material revenue is categorised as either self-publishing revenue or other revenue.

In the period ending 31 May 2017 'Other revenue' included licensing revenue of £520k (31 May 2016 £nil).

	12 months to 31 May 2017 £'000	12 months to 31 May 2016 £'000
Self-publishing revenue	**36,357**	21,122
Other revenue	**1,006**	244
	37,363	21,366

5. EMPLOYEE REMUNERATION

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

	31 May 2017 £'000	31 May 2016 £'000
Staff remuneration	**13,877**	10,603
Social security costs	**1,236**	1,084
Pension costs	**109**	92
Share-based compensation	**687**	738
	15,909	12,517

Included in the above payroll costs for the year ended 31 May 2017 is £8,460,312 (2016: £7,954,705) capitalised within intangible fixed assets (see note 10). 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 2017	31 May 2016
Research and development	**277**	255
Sales, marketing and administrative	**35**	26
	312	281

REMUNERATION OF DIRECTORS

	31 May 2017 £'000	31 May 2016 £'000
Directors' emoluments	**720**	609
Non-Executive fees	**38**	20
Non-Executive consultancy fees	**45**	60

EMOLUMENTS OF HIGHEST PAID DIRECTOR

	31 May 2017 £'000	31 May 2016 £'000
Emoluments	**230**	210
Pension	**2**	2

6. OPERATING LEASES

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

	Group and Company year ended	
	31 May 2017 £'000	31 May 2016 £'000
Minimum lease payments due within one year	**692**	692
Minimum lease payments due within one to five years	**1,344**	2,037
Minimum lease payments due in greater than five years	**—**	—
Total	**2,036**	2,729

Group lease payments recognised as an expense during the year ended 31 May 2017 amounted to £685,000 (2016: £655,000).

The lease payments in the period relate to office equipment, vehicles and lease agreements for office buildings. The building leases are due to expire in April 2020 and August 2020, however, these leases are expected to be superseded by a new 16 year lease agreement for a new office building which is expected to commence in 2018. Early termination of the existing leases has been agreed as part of the terms of the new lease.

7. PROFIT BEFORE TAX

	31 May 2017 £'000	31 May 2016 £'000
This is stated after charging:		
Amortisation of intangible assets	**4,623**	3,376
Depreciation of tangible assets	**241**	262
Research and development costs expensed	**508**	609
Foreign exchange (gains)/losses	**1,671**	(329)
Auditor remuneration:		
Audit of the parent and Group	**40**	40
Audit related assurance services	**10**	10
Operating leases	**685**	655

8. TAXATION ON ORDINARY ACTIVITIES

ANALYSIS OF THE CHARGE IN THE PERIOD

	31 May 2017 £'000	31 May 2016 £'000
UK corporation tax based on the results for the year	**660**	—
Overseas tax on the results for the period	**—**	94
Adjustments for prior periods	**87**	—
Video Games Tax Relief credits (UK)	**(664)**	(207)
Withholding tax	**19**	—
Deferred tax	**—**	(44)
Tax on profit on ordinary activities	**102**	(157)

8. TAXATION ON ORDINARY ACTIVITIES CONTINUED

FACTORS AFFECTING TAX EXPENSES

The tax assessed on the profit on ordinary activities for the year differs from the effective rate of corporation tax of 19.83% (2016: 19.6%) as follows:

	31 May 2017 £'000	31 May 2016 £'000
Profit on ordinary activities before taxation	**7,813**	1,275
Tax on profit on ordinary activities at standard rate	**1,549**	250
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	**203**	297
Adjustments to tax charge in respect of previous periods	**87**	—
Research and development tax credits	**—**	(410)
Video Games Tax Relief credits (UK)	**(645)**	—
Deferred tax - utilisation of tax losses	**(928)**	—
Deferred tax movements	**(39)**	44
Exercise of share options	**(125)**	(159)
Losses to carry forward	**—**	(179)
Total amount of tax	**102**	(157)

The Group benefits from enhanced tax deductions for research and development expenditure in the UK. From 1 April 2014 the Video Games Tax Relief became available and the Group received £664,792 in the period to 31 May 2017 (31 May 2016 £207,087).

9. 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.

	31 May 2017	31 May 2016
Profit attributable to shareholders (£'000)	**7,711**	1,432
Weighted average number of shares	**33,943,972**	33,812,840
Basic earnings per share (pence)	**22.7**	4.2

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

	31 May 2017	31 May 2016
Profit attributable to shareholders (£'000)	**7,711**	1,432
Diluted weighted average number of shares	**34,446,017**	35,302,973
Diluted earnings per share (pence)	**22.4**	4.1

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

	31 May 2017	31 May 2016
Weighted average number of shares	**33,943,972**	33,812,840
Dilutive effect of share options	**502,045**	1,490,133
Diluted average number of shares	**34,446,017**	35,302,973

10. 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.

	Development tools and licences £'000	Self-published software £'000	Third party software £'000	Total £'000
Cost				
At 31 May 2015	4,342	13,141	994	18,477
Additions – arising from capitalised development expenses	398	8,459	108	8,965
Disposals	(774)	—	—	(774)
At 31 May 2016	3,966	21,600	1,102	26,668
Additions – arising from capitalised development expenses	571	9,076	157	9,804
Disposals	—	—	(915)	(915)
At 31 May 2017	**4,537**	**30,676**	**344**	**35,557**
Amortisation and impairment				
At 31 May 2015	2,252	4,221	903	7,376
Amortisation charges	1,127	2,153	96	3,376
Disposals	(774)	—	—	(774)
At 31 May 2016	2,605	6,374	999	9,978
Amortisation charges	874	3,655	94	4,623
Disposals	—	—	(915)	(915)
At 31 May 2017	**3,479**	**10,029**	**178**	**13,686**
Net book value at 31 May 2017	**1,058**	**20,647**	**166**	**21,871**
Net book value at 31 May 2016	1,361	15,226	103	16,690

During the period ended 31 May 2017 the Group performed a detailed review of the intangible asset register, and as a result a number of assets were written off. The assets disposed of were fully amortised and therefore there was no impact on the net book value of assets held.

The majority of amortisation charges for intangible assets are expensed with research and development expenses. A small proportion of amortisation charges for third party software is charged to administrative expenses.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP AND COMPANY

	Fixtures and fittings £'000	Computer equipment £'000	Leasehold improvements £'000	Assets in the course of construction £'000	Total £'000
Cost					
At 31 May 2015	233	1,345	4	—	1,582
Additions	2	231	—	—	233
At 31 May 2016	235	1,576	4	—	1,815
Additions	1	238	—	394	633
Disposals	(121)	(916)	(4)	—	(1,041)
At 31 May 2017	**115**	**898**	**0**	**394**	**1,407**
Depreciation					
At 31 May 2015	172	1,073	4	—	1,249
Charge for the period	41	221	—	—	262
At 31 May 2016	213	1,294	4	—	1,511
Charge for the period	14	227	—	—	241
Disposals	(121)	(916)	(4)	—	(1,041)
At 31 May 2017	**106**	**605**	**—**	**—**	**711**
Net book value at 31 May 2017	**9**	**293**	**—**	**394**	**696**
Net book value at 31 May 2016	22	282	—	—	304

During the period ended 31 May 2017 the Group performed a detailed review of the tangible asset register, and as a result a number of assets were written off. The assets disposed of were fully depreciated and therefore there was no impact on the net book value of assets held.

Assets in the course of construction relates to the fit-out of a new leased building on the Science Park in Cambridge which is expected to be occupied during 2018.

Depreciation charges were apportioned to the income statement as follows:

	12 months ended 31 May 2017 £'000	12 months ended 31 May 2016 £'000
Charge		
Research and development expenses	**239**	253
Administration expenses	**2**	9
Total	**241**	262

12. TRADE AND OTHER RECEIVABLES

	Consolidated year ended		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Trade and other receivables	**1,736**	1,598	**1,725**	1,568
Intercompany receivable	**—**	—	**91**	213
Financial assets	**1,736**	1,598	**1,816**	1,781
Prepayments	**921**	779	**899**	779
Social Security and other taxes	**284**	66	**284**	26
Non-financial assets	**1,205**	845	**1,183**	805
Total trade and other receivables	**2,941**	2,443	**2,999**	2,586

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. The majority of receivables are balances with third party distributors.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included the following balances by currency:

	Consolidated year ended		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Cash at bank and in hand				
Great British Pounds (GBP)	**6,991**	6,352	**6,991**	6,352
US Dollars (USD)	**5,372**	1,404	**5,207**	877
Euros (EUR)	**116**	301	**116**	301
Canadian Dollars (CAD)	**100**	553	**100**	1
Financial assets	**12,579**	8,610	**12,414**	7,531

14. TRADE AND OTHER PAYABLES

	Consolidated year ended		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Trade payables	**1,003**	702	**1,003**	701
Intercompany payable	**—**	—	**9**	39
Accruals	**3,426**	1,635	**3,419**	1,627
Financial liabilities	**4,429**	2,337	**4,431**	2,367
Derivative financial instruments	**70**	388	**70**	388
Other taxation and social security	**395**	348	**395**	348
Total trade and other payables	**4,894**	3,073	**4,896**	3,103

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.

15. DEFERRED INCOME
Deferred income in the statement of financial position can be analysed as follows:

	Consolidated year ended		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Deferred income – current	**459**	1,085	**390**	822
Deferred income – non-current	**927**	1,148	**740**	940
Total deferred income	**1,386**	2,233	**1,130**	1,762

Non-current deferred income is due to be recognised over the expected remaining life of the franchise period. At 31 May 2017 the expected remaining life of the franchise is considered to be four and a half years.

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

The carrying values of deferred income are considered to be a reasonable approximation of fair value.

16. CURRENT TAX LIABILITIES
Current tax liabilities in the statement of financial position were as follows:

	Consolidated year ended		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Current tax liability	**747**	89	**747**	–

17. PROVISIONS
PROVISIONS FOR DILAPIDATIONS

	Group and Company year ended	
	31 May 2017 £'000	31 May 2016 £'000
Opening balance	**273**	260
Provided for in the period	**2**	13
At period end	**275**	273

The dilapidation provision relates to the rental contracts for two office buildings. 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.

The dilapidations provision will be due within one year. The expected outflow relates to vacation of buildings and is expected in 2018.

18. DEFERRED TAX ASSETS AND LIABILITIES

	Group and Company year ended	
	31 May 2017 £'000	31 May 2016 £'000
Accelerated capital allowances	**310**	369
Short-term temporary differences (restricted)	**(310)**	(52)
Tax losses (restricted)	**–**	(317)
Total liability	**–**	–
Balance brought forward	**–**	44
Movement in year	**–**	(44)
Balance carried forward liability	**–**	–

No deferred tax assets or liabilities have been recognised in the statement of financial position for the Group as at 31 May 2017 or 31 May 2016.

UK tax losses available at 31 May 2017 are provisionally estimated to be £1.9 million (2016: £5.6 million).

19. SHARE CAPITAL

GROUP AND COMPANY

Balances and movement in share capital, being Ordinary Shares of 0.5p each.

	Number	Nominal value £
As at 1 June 2015	33,579,697	167,899
Shares issued on option exercises	217,084	1,085
Shares issued to EBT	300,000	1,500
At 31 May 2016	34,096,781	170,484
Shares issued on option exercises and warrants	133,748	669
At 31 May 2017	**34,230,529**	**171,153**

From 1 June 2016 to 31 May 2017 133,748 Ordinary Shares of 0.5p were allotted as fully paid at an average premium of 93p being the exercise of share warrants by a third party (granted at IPO) and the exercise of share options by employees. The average market value was 250.8 pence on the days of allotment.

20. 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 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Financial assets				
Trade and other receivables	**1,736**	1,598	**1,816**	1,781
Cash and cash equivalents	**12,579**	8,610	**12,414**	7,531
Total	**14,315**	10,208	**14,230**	9,312

DERIVATIVE FINANCIAL INSTRUMENTS

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

	Consolidated year ended		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Derivative financial liabilities				
Forward foreign exchange contracts – held for trading	**(70)**	(388)	**(70)**	(388)

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.

	Consolidated year ended		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Financial liabilities				
Trade and other payables	**4,429**	2,337	**4,431**	2,367
Total	**4,429**	2,337	**4,431**	2,367

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

The Company holds a £6 investment in Frontier Developments Inc., a company registered in the US. This represents 100% of the Ordinary Share capital of the company, which is engaged in publisher support services for the Group.

21. INVESTMENT IN SUBSIDIARY UNDERTAKINGS CONTINUED

The Canadian subsidiary, Frontier Developments Inc, was wound up during the year with an effective dissolution date of 27 January 2017. The final tax return has been filed with the Canadian Revenue Agency and all final dividends were received by Frontier Developments plc before 31 May 2017.

22. 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 to 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 or warrant type	Period when exercisable	Price in pence	2017 Number	2016 Number
30 July 2012	2012 EMI scheme	2012–2022	89	**396,273**	722,523
15 May 2013	2013 EMI scheme	2014–2023	95	**210,000**	224,000
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
15 July 2013	Unapproved IPO warrants	2013–2023	127	**147,638**	147,638
21 March 2014	Company Share Option Plan	2017–2024	224.5	**165,100**	206,000
15 September 2014	Company Share Option Plan	2017–2024	257.5	**266,300**	283,950
15 September 2014	Unapproved options	2017–2024	257.5	**588,500**	626,850
15 September 2014	Unapproved options	2015–2024	257.5	**288,350**	288,350
10 March 2015	Company Share Option Plan	2018–2025	230	**163,100**	175,600
10 March 2015	Unapproved options	2018–2025	230	**33,200**	33,200
21 September 2015	Company Share Option Plan	2018–2025	193.5	**128,800**	144,800
21 September 2015	Unapproved options	2018–2025	193.5	**39,400**	47,400
8 September 2016	Company Share Option Plan	2019–2026	174	**164,000**	–
8 September 2016	Unapproved options	2019–2026	174	**176,000**	–
9 February 2017	Company Share Option Plan	2020–2027	278	**95,000**	–
9 February 2017	Unapproved options	2020–2027	278	**35,000**	–
31 May 2017	Company Share Option Plan	2020–2027	406	**7,389**	–
31 May 2017	Unapproved options	2020–2027	406	**22,167**	–
31 May 2017	Unapproved options	2020–2027	250	**300,000**	–
				3,292,007	2,981,849

Movements in the number of share options and warrants outstanding:

	Group and Company year ended	
	2017 Number	2016 Number
Opening balance	**2,981,849**	3,388,249
Granted	**799,556**	193,200
Exercised	**(374,898)**	(508,100)
Lapsed	**(114,500)**	(91,500)
Closing balance	**3,292,007**	2,981,849

The share-based compensation charge in the profit and loss was £687,465 (31 May 2016: £738,020), of which £18,458 (31 May 2016: £10,287) was in respect of warrants.

Under the rules of the Company Share Option Plan, typically 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.

22. SHARE OPTIONS CONTINUED

22.1 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:

	March 2017	September 2016
Share price at date of grant (p)	**278**	174
Exercise price (p)	**278**	174
Expected time to expiry (years)	**8.36**	8.63
Risk-free interest rate (%)	**2.52**	1.77
Expected dividend yield on shares (%)	**0**	0
Expected volatility of share price (%)	**35**	34
Fair value of options granted (p)	**125.6**	74.89

Share options granted on 31 May 2017 have been excluded from the fair value calculations above. Due to the date of grant being 31 May 2017 these options were deemed to be granted on 1 June 2017 for accounting purposes and will therefore be included in the next financial year financial statements.

22.2 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 is 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), which administers the Trust. The number of share options exercised by employees in the year and fulfilled as part of these arrangements was 241,150 Ordinary Shares. The EBT purchased 116,395 Ordinary Shares from employees exercising under the cashless options. The EBT had no other assets or liabilities at 31 May 2017 outside of its interest in 105,645 Ordinary Shares, and a voluntary contribution was made to the Trust to repay the outstanding loan balance in full in April 2017 (2016: £1,353,770) from the £10 million facility provided by the Company.

23. 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			
Connected party	**Expense paid 31 May 2017 £'000**	**Creditor balance 31 May 2017 £'000**	Expense paid 31 May 2016 £'000	Creditor balance 31 May 2016 £'000
Chris Sawyer – royalties	**154**	**—**	84	—
Marjacq Micro Limited – sales commission	**59**	**—**	19	—

	Group and Company year ended	
Connected party	**Change in value of loan expense paid 31 May 2017 £'000**	Change in value of loan expense 31 May 2016 £'000
EBT – share options exercised by employees	**50**	129
EBT – shares issued and market purchases	**—**	675
Voluntary contribution to the Trust to repay outstanding loan balance during year ended 31 May 2017	**(1,404)**	—
Movement in year	**(1,354)**	804
Opening loan balance	**1,354**	550
Closing loan balance	**—**	1,354

24. 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 20. 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.

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.

24.1 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 20).

The Group's management considers all financial assets, not impaired, for each reporting date to be 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.

24.2 FOREIGN CURRENCY RISK

The Group's reporting currency is Sterling. Exposure to currency exchange rates arises where transactions are in a currency other than the functional currency of the entity, primarily US Dollars (USD) and Euros (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 2017			Consolidated year ended 31 May 2016			**Company year ended 31 May 2017**			Company year ended 31 May 2016		
	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	**100**	**5,372**	**116**	553	1,404	301	**100**	**5,208**	**116**	1	878	301

In addition, some of the Group's revenue and overhead transactions are completed in a foreign currency.

24. FINANCIAL INSTRUMENT RISKS CONTINUED

24.2 FOREIGN CURRENCY RISK CONTINUED

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		Company year ended	
	31 May 2017 £'000	31 May 2016 £'000	**31 May 2017 £'000**	31 May 2016 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	**1,023**	298	**1,218**	661
Equity	**381**	188	**368**	118

24.3 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 secure 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 2017				
Trade and other payables	**4,331**	**98**	**–**	**–**
As at 31 May 2016				
Trade and other payables	2,281	56	–	–

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 2017				
Trade and other payables	**4,333**	**98**	**–**	**–**
As at 31 May 2016				
Trade and other payables	2,311	56	–	–

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.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2017
(REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2017 £'000	31 May 2016 £'000
Non-current assets			
Intangible assets	10	**21,871**	16,690
Property, plant and equipment	11	**696**	304
		22,567	16,994
Current assets			
Inventories		**–**	9
Trade and other receivables	12	**2,999**	2,586
Other short-term assets		**456**	376
Cash and cash equivalents	13	**12,414**	7,531
		15,869	10,502
Total assets		**38,436**	27,496
Current liabilities			
Trade and other payables	14	**(4,896)**	(3,103)
Deferred income	15	**(390)**	(822)
Current tax liabilities	16	**(747)**	–
Provisions	17	**(275)**	–
		(6,308)	(3,925)
Net current assets		**9,591**	6,577
Non-current liabilities			
Provisions	17	**–**	(273)
Deferred income	15	**(740)**	(940)
		(740)	(1,213)
Total liabilities		**(7,048)**	(5,138)
Net assets		**31,388**	22,358
Equity			
Share capital	19	**171**	170
Share premium account		**14,601**	14,476
Equity reserve		**972**	579
Retained earnings		**15,644**	7,133
Total equity		**31,388**	22,358

The company has taken the exemption under section 408 of the Companies Act 2006 not to present a full income statement, but the profit for the company was £8,268,195 (2016: £1,530,975).

These financial statements were approved by the Directors on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY

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

	31 May 2017 £'000	31 May 2016 £'000
Cash generated from operations	**5,017**	(1,931)
Taxes received/(paid)	**564**	(148)
Cashflow from operating activities	**5,581**	(2,079)
Investing activities		
Purchase of property, plant and equipment	**(633)**	(233)
Expenditure on intangible assets (excluding capitalised development costs)	**(157)**	(108)
Interest received	**19**	35
Cashflow from investing activities	**(771)**	(306)
Financing activities		
Proceeds from issue of share capital	**125**	276
Employee Benefit Trust net investment	**(50)**	(563)
Cashflow from financing activities	**75**	287
Net change in cash and cash equivalents from continuing operations	**4,885**	(2,672)
Cash and cash equivalents at beginning of period	**7,531**	10,203
Exchange differences on cash and cash equivalents	**(2)**	—
Cash and cash equivalents at end of period	**12,414**	7,531

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2017 £'000	31 May 2016 £'000
Operating profit	**8,353**	1,279
Depreciation and amortisation	**4,864**	3,638
EBITDA	**13,217**	4,917
Capitalised development costs	**(9,647)**	(8,857)
Movement in urealised exchange (gains)/losses on forward contracts	**(377)**	551
Share-based payment expenses	**687**	745
Operating cash flow	**3,920**	(2,644)
Net changes in working capital:		
Change in inventories	**9**	4
Change in trade and other receivables	**(394)**	185
Change in trade and other payables	**1,480**	511
Change in provisions	**2**	13
Cash generated from operations	**5,017**	(1,931)

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2017

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2015	168	13,963	633	5,607	20,371
Profit for the year	—	—	—	1,531	1,531
Total comprehensive income for the year	—	—	—	1,531	1,531
Issue of share capital net of expenses	2	513	—	—	515
Share-based payment charges	—	—	745	—	745
Share-based payment transfer relating to option lapses	—	—	5	(5)	—
EBT share inflows from issues and/or purchases	—	—	(1,164)	—	(1,164)
EBT share outflows from option exercises	—	—	360	—	360
At 31 May 2016	170	14,476	579	7,133	22,358
Profit for the year	—	—	—	8,268	8,268
Total comprehensive income for the year	—	—	—	8,268	8,268
Issue of share capital net of expenses	1	125	—	—	126
Share-based payment charges	—	—	687	—	687
Share-based payment transfer relating to option lapses	—	—	(244)	244	—
EBT share inflows from issues and/or purchases	—	—	(318)	—	(318)
EBT share outflows from option exercises	—	—	268	—	268
At 31 May 2017	**171**	**14,601**	**972**	**15,644**	**32,388**

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