CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MAY 2019

	Notes	31 May 2019 £'000	31 May 2018 £'000
Revenue	4	**89,669**	34,192
Cost of sales		**(35,021)**	(10,092)
Gross profit		**54,648**	24,100
Research and development expenses		**(14,891)**	(8,500)
Sales and marketing expenses		**(7,852)**	(6,076)
Administrative expenses		**(12,536)**	(6,724)
Operating profit		**19,369**	2,800
Finance income		**289**	81
Profit before tax	7	**19,658**	2,881
Income tax	8	**(2,248)**	713
Profit for the period attributable to shareholders		**17,410**	3,594

All the activities of the Group are classified as continuing.

	Notes	31 May 2019 p	31 May 2018 p
Earnings per share	9		
Basic earnings per share		**45.4**	9.6
Diluted earnings per share		**43.2**	9.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY 2019

	31 May 2019 £'000	31 May 2018 £'000
Profit for the period	**17,410**	3,594
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(4)**	2
Total comprehensive income for the period attributable to the equity holders of the parent	**17,406**	3,596

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2019

(REGISTERED COMPANY NO: 02892559)

	Notes	31 May 2019 £'000	Restated* 31 May 2018 £'000	Restated* 31 May 2017 £'000
Non-current assets				
Intangible assets	10	**36,450**	30,186	22,860
Property, plant and equipment	11	**6,352**	4,966	696
Deferred tax asset	18	**605**	—	—
		43,407	35,152	23,556
Current assets				
Trade and other receivables	12	**5,178**	6,720	2,941
Current tax asset		**141**	536	510
Cash and cash equivalents	13	**35,332**	24,124	12,579
		40,651	31,380	16,030
Total assets		**84,058**	66,532	39,586
Current liabilities				
Trade and other payables	14	**(9,026)**	(6,909)	(4,894)
Deferred income	15	**(1,036)**	(3,634)	(459)
Current tax liabilities	16	**(966)**	—	(747)
Provisions	17	**—**	(11)	(275)
		(11,028)	(10,554)	(6,375)
Net current assets		**29,623**	20,826	9,655
Non-current liabilities				
Provisions	17	**(13)**	—	—
Deferred income	15	**(465)**	(690)	(927)
Other payables	14	**(939)**	—	(989)
		(1,417)	(690)	(1,916)
Total liabilities		**(12,445)**	(11,244)	(8,291)
Net assets		**71,613**	55,288	31,295
Equity				
Share capital	19	**194**	193	171
Share premium account		**34,390**	34,132	14,601
Equity reserve		**(3,073)**	780	972
Foreign exchange reserve		**(16)**	(12)	(4)
Retained earnings		**40,118**	20,195	15,555
Total equity		**71,613**	55,288	31,295

* Restated for a licence related accounting adjustment as per note 10.

These financial statements were approved by the Directors on 4 September 2019 and signed on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2019

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2017	171	14,601	972	(4)	15,555	31,295
Profit for the year	–	–	–	–	3,594	3,594
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(8)	–	(8)
Exchange differences on translation of net investment	–	–	–	–	10	10
Total comprehensive income for the year	–	–	–	(8)	3,604	3,596
Issue of share capital net of expenses	22	19,531	–	–	–	19,553
Share-based payment charges	–	–	992	–	–	992
Share-based payment transfer relating to option exercises and lapses	–	–	(1,036)	–	1,036	–
EBT share inflows from issues and/or purchases	–	–	(263)	–	–	(263)
EBT share outflows from option exercises	–	–	115	–	–	115
Transactions with owners	22	19,531	(192)	–	1,036	20,397
At 31 May 2018	193	34,132	780	(12)	20,195	55,288
Profit for the year	–	–	–	–	17,410	17,410
Other comprehensive income:						
Exchange differences on translation of foreign operations	–	–	–	(4)	–	(4)
Total comprehensive income for the year	–	–	–	(4)	17,410	17,406
Issue of share capital net of expenses	1	258	–	–	–	259
Share-based payment charges	–	–	1,564	–	–	1,564
Share-based payment transfer relating to option exercises and lapses	–	–	(535)	–	535	–
EBT share inflows from issues and/or purchases	–	–	(5,000)	–	–	(5,000)
EBT share outflows from option exercises	–	–	118	–	–	118
Tax credits on share options taken directly to reserves	–	–	–	–	1,978	1,978
Transactions with owners	1	258	(3,853)	–	2,513	(1,081)
At 31 May 2019	**194**	**34,390**	**(3,073)**	**(16)**	**40,118**	**71,613**

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MAY 2019

	31 May 2019 £'000	31 May 2018 £'000
Cash generated from operations	**32,312**	10,252
Taxes received/(paid)	**480**	(41)
Cashflow from operating activities	**32,792**	10,211
Investing activities		
Purchase of property, plant and equipment	**(2,269)**	(4,660)
Expenditure on intangible assets	**(14,981)**	(13,503)
Interest received	**289**	81
Cashflow from investing activities	**(16,961)**	(18,082)
Financing activities		
Proceeds from issue of share capital	**259**	19,553
Employee Benefit Trust net investment	**(4,882)**	(148)
Cashflow from financing activities	**(4,623)**	19,405
Net change in cash and cash equivalents from continuing operations	**11,208**	11,534
Cash and cash equivalents at beginning of period	**24,124**	12,579
Exchange differences on cash and cash equivalents	**–**	11
Cash and cash equivalents at end of period	**35,332**	24,124

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

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2019 £'000	31 May 2018 £'000
Operating profit	**19,369**	2,800
Depreciation and amortisation	**9,600**	6,567
EBITDA	**28,969**	9,367
Movement in unrealised exchange (gains)/losses on forward contracts	**(340)**	287
Share-based payment expenses	**1,564**	992
Operating cash flows before movements in working capital	**30,193**	10,646
Net changes in working capital:		
Change in trade and other receivables	**1,542**	(4,069)
Change in trade and other payables	**575**	3,939
Change in provisions	**2**	(264)
Cash generated from operations	**32,312**	10,252

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 26 Science Park, Milton Road, Cambridge CB4 0FP.

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 basis of preparation and going concern policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

BASIS OF PREPARATION

The financial information of Frontier Developments plc, for both Group and Company, 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 IFRSs.

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 and Company's forecasts and projections, taking account of current cash resources and reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of approval of these financial statements. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

3. ACCOUNTING POLICIES

The following accounting policies apply to both Group and Company Financial Statements, unless otherwise indicated.

BASIS OF CONSOLIDATION

Group only policy

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

Group only policy

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.

STANDARDS AND INTERPRETATIONS NOT YET APPLIED

- 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)

ADOPTION OF NEW AND REVISED STANDARDS

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 has reviewed IFRS 15 and there is no material impact. The Group's current revenue model already recognises revenue at the point the obligation has been satisfied and no changes are required to the current model based on the implementation of IFRS 15.

IFRS 9 "Financial Instruments"

The new standard for financial instruments replaces IAS 39 "Financial Instruments: Recognition and Measurement". It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

The Group considers there to be no material impact on the financial statements as a result of the adoption of the new standard IFRS 9.

3. ACCOUNTING POLICIES CONTINUED

NEW STANDARDS

IFRS 16 "Leases"

IFRS 16 "Leases" was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. IFRS 16 is 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.

A lessee recognises a right-of-use asset on the statement of financial position to represent its right to use the underlying asset. A lease liability is also recognised to represent the obligation to make lease payments.

The expenses related to the leases will also change under IFRS 16 and an interest expense on the lease liability and a depreciation charge on the right-of-use assets will replace straight line operating lease expenses in the income statement.

The Group has assessed IFRS 16 and has quantified the expected impact on the financial statements. The Group will transition to IFRS 16 under the modified retrospective approach. This requires an adjustment to equity to be made on 1 June 2019 with no restatement of prior year comparatives.

On 1 June 2019 the Group expects to recognise a new right-of-use asset of approximately £24.3 million and lease liabilities of approximately £24.3 million. This is in recognition of operating leases in respect of office premises.

The straight line operating lease expense will be replaced with a depreciation charge for the right-of-use asset of approximately £1.6 million and an interest expense of approximately £0.7 million in the first year of adoption.

The Group plans to adopt IFRS 16 in the financial statements for the following financial year, the year ended 31 May 2020.

Transition

As a lessee, the Group can elect to apply either the retrospective approach, or a modified retrospective approach which has optional practical expedients. The approach is applied consistently to all of its leases.

The Group plans to adopt IFRS 16 accounting from 1 June 2019 using the modified retrospective approach. No restatement of prior year information is made under the modified approach and as such an adjustment to the opening balance of retained earnings will be made on 1 June 2019 to account for the cumulative effect of IFRS 16 on prior years.

SIGNIFICANT ACCOUNTING ESTIMATES AND KEY JUDGEMENTS

Judgement

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 2019 are £36,450k (2018: £30,186k).

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, self-published titles are amortised on completion of the game on a straight line basis.

Judgement

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 being recognised as this relates to the carry forward losses the Group expects to benefit from in future years.

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES

Intangible assets

Intangible assets are measured at historical 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.

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.

From time to time the Group enters into agreements with third party Intellectual Property (IP) owners to secure IP rights to support the development and publication of certain games or game content. These agreements typically contain a schedule of royalties payable to the IP owner, based on a percentage of sales. The agreements may also include guaranteed minimum amounts payable to the IP owner. It is the Group's policy to record a financial liability for the total of any guaranteed minimum amount when the agreement is executed, and these amounts are typically treated as licence costs and capitalised as intangible assets according to, and subject to, the principles of IAS 38.

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	– 2.5 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.

Assets in the course of construction

Assets in the course of construction are stated at cost. Once the asset has been completed the carrying value of the asset is transferred and categorised into leasehold improvements. The asset is depreciated over the remaining life of the lease.

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES CONTINUED

Financial assets

Financial assets 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.

The Group does not hold a reserve for estimated potential credit losses as the credit loss model does not have a material impact.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits available on demand, together with other short-term, highly liquid deposit accounts maturing within three months.

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, and agreements with third-party intellectual property (IP) owners.

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

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 is 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, paid downloadable content, royalties from published games and associated physical merchandise.

Revenue from released self-published games is recognised in accordance with IFRS 15 on download of the game or upon purchase of in-game digital items.

On release of a game, free downloadable content or updates provided to consumers are not considered additional performance obligations as these are not promised to the consumer and are only available at the discretion of the Group.

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES CONTINUED

Revenue continued

Revenue from pre-orders of self-published games is normally deferred, then recognised when the Group meets its performance obligations upon commercial release of the game.

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.

Physical discs are distributed through our agents to retailers and the retailers are considered to be our customer. The performance obligation is satisfied at the point the retailer takes delivery of the discs but sales are made to retailers with a right of return. Revenue is recognised only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Due to the uncertainty around return levels for new games revenue is not recognised until the discs are sold by the retailer to the end user.

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 which the Group considers to be the Chief Executive Officer, 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.

Research and development tax credits (R&D tax credits) are claimed by the Group for qualifying expenditure which is included as an allowable deduction within the tax computation if not claimed as a cash credit. If the R&D tax credit is claimed as a cash benefit this is recognised through the profit and loss in the period it is received.

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.

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.

3. ACCOUNTING POLICIES CONTINUED

ACCOUNTING POLICIES CONTINUED

Financial assets and liabilities at FVTPL

Derivative financial instruments are financial assets and liabilities measured at fair value through 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. The cost to develop this information internally would be excessive.

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 both the period ended 31 May 2019 and the period ended 31 May 2018, 'Other revenue' mainly related to royalty income.

	12 months to 31 May 2019 £'000	12 months to 31 May 2018 £'000
Self-publishing revenue	**89,476**	32,644
Other revenue	**193**	1,548
	89,669	34,192

5. EMPLOYEE REMUNERATION

Staff costs for all employees for Group and Company, including Directors, consist of:

	31 May 2019 £'000	31 May 2018 £'000
Staff remuneration	**18,870**	13,179
Social security costs	**1,626**	1,399
Pension costs	**1,497**	712
Share-based compensation	**1,564**	992
	23,557	16,282

Included in the above payroll costs for the year ended 31 May 2019 is £8,368,105 (2018: £9,654,702) capitalised within intangible fixed assets (see note 10). Pension costs relate to contributions to the Company's defined contribution scheme for auto-enrolment.

The average number of employees for the Group and Company, including Directors, during the period was:

	31 May 2019	31 May 2018
Research and development	**371**	300
Sales, marketing and administrative	**49**	45
	420	345

REMUNERATION OF DIRECTORS

	31 May 2019 £'000	31 May 2018 £'000
Directors' emoluments (including bonuses)	**1,049**	1,483
Non-Executive fees	**79**	40
Non-Executive consultancy fees	**49**	45

5. EMPLOYEE REMUNERATION CONTINUED

EMOLUMENTS OF HIGHEST PAID DIRECTOR

	31 May 2019 £'000	31 May 2018 £'000
Emoluments	**321**	400
Pension	**10**	10

For detailed Directors' remuneration disclosures refer to page 35 of the financial statements.

6. OPERATING LEASES

GROUP AND COMPANY

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

	Group and Company year ended	
	31 May 2019 £'000	31 May 2018 £'000
Minimum lease payments due within one year	**1,945**	1,911
Minimum lease payments due within one to five years	**7,771**	7,636
Minimum lease payments due in greater than five years	**19,407**	21,475
Total	**29,123**	31,022

Group lease payments recognised as an expense during the year ended 31 May 2019 amounted to £1,953,924 (31 May 2018: £1,133,561).

The lease payments in the period relate to office equipment, vehicles and lease agreements for office buildings.

7. PROFIT BEFORE TAX

	31 May 2019 £'000	31 May 2018 £'000
This is stated after charging:		
Amortisation of intangible assets	**8,717**	6,177
Depreciation of tangible assets	**883**	390
Research and development costs expensed	**6,352**	2,450
Foreign exchange losses	**302**	137
Auditor remuneration:		
Audit of the parent and Group	**60**	52
Audit related assurance services	**9**	9
Other assurance services	**—**	1
Operating leases	**1,954**	1,134

8. TAXATION ON ORDINARY ACTIVITIES

ANALYSIS OF THE CHARGE/(CREDIT) IN THE PERIOD

	31 May 2019 £'000	31 May 2018 £'000
UK corporation tax based on the results for the year	**2,339**	34
Adjustments for prior periods	**(91)**	(747)
Tax on profit on ordinary activities	**2,248**	(713)

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% (2018: 19%) as follows:

	31 May 2019 £'000	31 May 2018 £'000
Profit on ordinary activities before taxation	**19,673**	2,880
Tax on profit on ordinary activities at standard rate	**3,738**	547
Factors affecting tax expense for the year:		
Expenses not deductible for tax purposes	**385**	381
Adjustments to tax charge in respect of previous periods	**(91)**	(747)
Research and development tax credits	**(262)**	(235)
Video Games Tax Relief enhanced deductions	**(608)**	(608)
Utilisation of deferred tax losses unrecognised in the prior year	**(605)**	–
Adjustment to tax for share options	**1,978**	–
Corporation tax deductions for employee share option exercises	**(371)**	(1,820)
Utilisation of tax losses in current year	**(1,916)**	–
Losses to carry forward	**–**	1,769
Total amount of tax	**2,248**	(713)

The Group benefits from the enhanced tax deductions available from the Video Games Tax Relief (VGTR) scheme as well as enhanced tax deductions for research and development expenditure (where costs are not included in the VGTR regime). For the financial year 2019 the Group has recorded a corporation tax charge of £2.2 million (FY18: a credit of £0.7 million) which would imply an effective tax rate of 11%. The taxable profits were almost completely offset by the brought forward losses from prior years and the tax deduction related to staff share options. The £2.2 million charge being recognised in FY19 is largely due to the tax accounting adjustment for share options. IAS 12 states that the benefit of any tax deductible share options in excess of the cumulative IFRS 2 charge must be credited directly to reserves, and not through the income statement.

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 2019	31 May 2018
Profit attributable to shareholders (£'000)	**17,410**	3,594
Weighted average number of shares	**38,337,119**	37,519,639
Basic earnings per share (pence)	**45.4**	9.6

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

	31 May 2019	31 May 2018
Profit attributable to shareholders (£'000)	**17,410**	3,594
Diluted weighted average number of shares	**40,254,488**	39,485,283
Diluted earnings per share (pence)	**43.2**	9.1

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

	31 May 2019	31 May 2018
Weighted average number of shares	**38,337,119**	37,519,639
Dilutive effect of share options	**1,917,369**	1,965,644
Diluted average number of shares	**40,254,488**	39,485,283

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 and licences £'000	Third-party software £'000	Total £'000
Cost				
At 31 May 2017*	4,537	31,665	344	36,546
Additions	930	12,489	84	13,503
At 31 May 2018*	5,467	44,154	428	50,049
Additions	1,295	13,518	168	14,981
At 31 May 2019	**6,762**	**57,672**	**596**	**65,030**
Amortisation and impairment				
At 31 May 2017	3,479	10,029	178	13,686
Amortisation charges	949	5,101	127	6,177
At 31 May 2018	4,428	15,130	305	19,863
Amortisation charges	365	8,174	178	8,717
At 31 May 2019	**4,793**	**23,304**	**483**	**28,580**
Net book value at 31 May 2019	**1,969**	**34,368**	**113**	**36,450**
Net book value at 31 May 2018*	1,039	29,024	123	30,186

* Restated for a licence commitment previously not recorded which increased intangible assets and trade and other payables at 31 May 2017 and 31 May 2018 by £989,000.

The majority of amortisation charges for intangible assets are expensed within research and development expenses.

During the period ended 31 May 2018 the Group performed a review of IAS 38 "Intangible Assets" and the application of this standard. As a result the processes for the commencement and the cessation of the capitalisation of development costs, together with the application of amortisation periods, were refined. Game development costs are now only capitalised for new chargeable franchise assets. Typically costs incurred after the commercial launch of assets are expensed. Amortisation periods are assigned and aligned to these assets. Typically amortisation is over four years for game assets and two years for PDLC (paid downloadable content). These refinements were effective from 1 June 2018.

Existing assets with a net book value at 31 May 2018 are covered by transition arrangements to amortise these assets over a remaining period of four years.

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 2017	115	898	—	394	1,407
Additions	—	317	—	4,343	4,660
Transfer	459	307	3,971	(4,737)	—
At 31 May 2018	574	1,522	3,971	—	6,067
Additions	276	616	1,377	—	2,269
At 31 May 2019	**850**	**2,138**	**5,348**	**—**	**8,336**
Depreciation					
At 31 May 2017	106	605	—	—	711
Charge for the period	19	309	62	—	390
At 31 May 2018	125	914	62	—	1,101
Charge for the period	121	478	284	—	883
At 31 May 2019	**246**	**1,392**	**346**	**—**	**1,984**
Net book value at 31 May 2019	**604**	**746**	**5,002**	**—**	**6,352**
Net book value at 31 May 2018	449	608	3,909	—	4,966

Assets in the course of construction related to the fit-out of a new leased building in the Science Park in Cambridge which was occupied from April 2018. During the period to 31 May 2019 further fit-out costs were incurred as previously unused office space was occupied by the Group.

Depreciation charges were apportioned to the income statement as follows:

	Year ended 31 May 2019 £'000	Year ended 31 May 2018 £'000
Research and development expenses	**347**	260
Administration expenses	**536**	130
Total	**883**	390

12. TRADE AND OTHER RECEIVABLES

	Consolidated year ended		Company year ended	
	31 May 2019 £'000	31 May 2018 £'000	**31 May 2019 £'000**	31 May 2018 £'000
Trade and other receivables, gross	**2,932**	4,130	**2,930**	4,137
Intercompany receivable	**—**	—	**3,992**	158
Financial assets	**2,932**	4,130	**6,922**	4,295
Prepayments and other debtors	**2,015**	2,148	**1,992**	2,126
Social security and other taxes	**231**	442	**228**	443
Non-financial assets	**2,246**	2,590	**2,220**	2,569
Total trade and other receivables	**5,178**	6,720	**9,142**	6,864

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 2019 £'000	31 May 2018 £'000	**31 May 2019 £'000**	31 May 2018 £'000
Cash at bank and in hand				
Great British Pounds (GBP)	**24,206**	20,916	**24,206**	20,916
US Dollars (USD)	**9,324**	2,447	**5,348**	2,247
Euros (EUR)	**1,798**	755	**1,798**	755
Canadian Dollars (CAD)	**4**	6	**4**	6
Financial assets	**35,332**	24,124	**31,356**	23,924

14. TRADE AND OTHER PAYABLES

CURRENT LIABILITIES

	Consolidated year ended		Company year ended	
	31 May 2019 £'000	Restated* 31 May 2018 £'000	**31 May 2019 £'000**	Restated* 31 May 2018 £'000
Trade payables	**3,056**	1,492	**3,056**	1,458
Intercompany payable	**—**	—	**10**	44
Accruals	**5,307**	4,530	**5,292**	4,520
Financial liabilities	**8,363**	6,022	**8,358**	6,022
Derivative financial instruments	**31**	373	**31**	373
Other taxation and social security	**632**	514	**632**	514
Total trade and other payables	**9,026**	6,909	**9,021**	6,909

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.

14. TRADE AND OTHER PAYABLES CONTINUED

NON-CURRENT LIABILITIES

	Consolidated year ended		Company year ended	
	31 May 2019 £'000	Restated* 31 May 2018 £'000	**31 May 2019 £'000**	Restated* 31 May 2018 £'000
Other payables	**939**	–	**939**	–
Total other payables	**939**	–	**939**	–

* Restated for a licence related accounting adjustment as per note 10.

Other payables within non-current liabilities are payments that are due between 12 and 24 months.

15. DEFERRED INCOME

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

	Consolidated year ended		Company year ended	
	31 May 2019 £'000	31 May 2018 £'000	**31 May 2019 £'000**	31 May 2018 £'000
Deferred income – current	**1,036**	3,634	**989**	3,589
Deferred income – non-current	**465**	690	**370**	555
Total deferred income	**1,501**	4,324	**1,359**	4,144

The deferred revenue balance for the year ended 31 May 2019 is in respect of *Elite Dangerous* lifetime expansion passes and disc sales of *Jurassic World Evolution* that are still within the distribution channel.

The *Elite Dangerous* lifetime expansion passes deferred revenue amount recognised for 31 May 2019 is £697k (2018: £920k).

Non-current deferred income for *Elite Dangerous* lifetime expansion passes is due to be recognised over the expected remaining accounting life of the franchise period, which was the period originally set in 2014. At 31 May 2019 the remaining accounting life of the franchise lifetime expansion passes is considered to be two and a half years.

The disc sales of *Jurassic World Evolution* deferred revenue amount recognised at 31 May 2019 is £804k (2018: £nil).

The deferred revenue for disc sales is expected to be released during the next 12 months.

All deferred revenue related to digital pre-order sales of *Jurassic World Evolution* for the year ended 31 May 2018 was released on the launch of *Jurassic World Evolution* on 12 June 2018. The amount released was £3,423k.

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 2019 £'000	31 May 2018 £'000	**31 May 2019 £'000**	31 May 2018 £'000
Current tax liability	**966**	–	**966**	–

The Group has recognised a current tax liability of £1.0 million for the year ended 31 May 2019 (£nil for 31 May 2018). This is based on the estimated corporation tax due. This amount differs from the £2.2 million tax charge recorded for the year as the Group can benefit from the tax deductions for share options and the loss relief from prior periods when considering the liability that is due.

17. PROVISIONS

PROVISIONS FOR DILAPIDATIONS

	Group and Company year ended	
	31 May 2019 £'000	31 May 2018 £'000
Opening balance	**11**	275
Provision utilised	**–**	–
Provision released	**–**	(264)
Provided for in the period	**2**	–
At period end	**13**	11

The provision is based on the estimated costs of work to be performed to bring the building back to a state of repair and condition similar to the start of the lease.

18. DEFERRED TAX ASSETS AND LIABILITIES

	Group and Company year ended	
	31 May 2019 £'000	31 May 2018 £'000
Accelerated capital allowances	**–**	109
Short-term temporary differences (restricted)	**–**	(109)
Tax losses (restricted)	**605**	–
Total asset/(liability)	**605**	–
Balance brought forward	**–**	–
Movement in year	**605**	–
Balance carried forward asset/(liability)	**605**	–

A deferred tax asset has been recognised in the statement of financial position for the Group and Company as at 31 May 2019 for £0.6 million (FY18: £nil) as this relates to the carry forward losses the Group expects to benefit from in future years.

UK tax losses available at 31 May 2019 are provisionally estimated to be £3.5 million (31 May 2018: £10 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 31 May 2017	34,230,529	171,153
Shares issued on option exercises and warrants	985,517	4,928
Tencent investment	3,386,252	16,931
As at 31 May 2018	38,602,298	193,012
Shares issued on option exercises and warrants	138,770	693
As at 31 May 2019	**38,741,068**	**193,705**

From 1 June 2018 to 31 May 2019 138,770 Ordinary Shares of 0.5p were allotted as fully paid at an average premium of 186p, being the exercise of share options by employees. The average market value was 1746p 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 2019 £'000	31 May 2018 £'000	**31 May 2019 £'000**	31 May 2018 £'000
Financial assets at amortised cost				
Trade and other receivables	**2,932**	4,130	**6,922**	4,295
Cash and cash equivalents	**35,332**	24,124	**31,356**	23,924
Total	**38,264**	28,254	**38,278**	28,219

DERIVATIVE FINANCIAL INSTRUMENTS

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

	Consolidated year ended		Company year ended	
	31 May 2019 £'000	31 May 2018 £'000	**31 May 2019 £'000**	31 May 2018 £'000
Derivative financial liabilities				
Forward foreign exchange contracts – held for trading	**(31)**	(373)	**(31)**	(373)

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.

The Group's foreign currency forward contracts have been fair valued using observable forward exchange rates corresponding to the maturity of the contract. The observable forward exchange rates are provided by a third party. They are defined as level 2 within the fair value hierarchy. There were no transfers between levels in 2019 or 2018.

	Consolidated year ended		Company year ended	
	31 May 2019 £'000	Restated* 31 May 2018 £'000	**31 May 2019 £'000**	Restated* 31 May 2018 £'000
Financial liabilities at amortised cost				
Trade and other payables	**8,363**	6,022	**8,358**	6,022
Total	**8,363**	6,022	**8,358**	6,022

* Restated for a licence related accounting adjustment as per note 10.

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. The registered address of Frontier Developments Inc. is 500 N Rainbow Blvd, Suite 300, Las Vegas, NV 89107, US.

22. SHARE OPTIONS

The Group has a number of share schemes whereby options may be granted to employees (including Directors) to subscribe for Ordinary Shares in the Group.

The Group operates two EMI schemes (pre-July 2013), a HMRC-approved Company Share Option Plan (from January 2014), two unapproved schemes (one pre-July 2013 and one post-January 2014), a HMRC-approved Sharesave scheme (October 2017, May 2018, October 2018 and April 2019) and a Long Term Incentive Plan (November 2017, January 2018, May 2018 and October 2018). The share option grants for employees typically vest after 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. The Long Term Incentive Plan has a vesting period of three years and has performance conditions attached to the options.

Date of grant	Scheme or warrant type	Period when exercisable	Price in pence	2019 Number	2018 Number
30 July 2012	2012 EMI scheme	2012–2022	89	**116,543**	130,193
15 May 2013	2013 EMI scheme	2014–2023	95	**4,000**	4,000
8 July 2013	Unapproved pre-IPO warrants	2013–2023	95	**65,790**	65,790
15 July 2013	Unapproved IPO warrants	2013–2023	127	**147,638**	147,638
21 March 2014	Company Share Option Plan	2017–2024	224.5	**74,000**	80,850
15 September 2014	Company Share Option Plan	2017–2024	257.5	**134,330**	156,380
15 September 2014	Unapproved options	2017–2024	257.5	**164,100**	213,100
15 September 2014	Unapproved options	2015–2024	257.5	**288,350**	288,350
10 March 2015	Company Share Option Plan	2018–2025	230	**80,330**	97,230
10 March 2015	Unapproved options	2018–2025	230	**29,000**	30,200
21 September 2015	Company Share Option Plan	2018–2025	193.5	**82,400**	124,000
21 September 2015	Unapproved options	2018–2025	193.5	**37,200**	39,400
8 September 2016	Company Share Option Plan	2019–2026	174	**154,000**	160,000
8 September 2016	Unapproved options	2019–2026	174	**156,000**	176,000
9 February 2017	Company Share Option Plan	2020–2027	278	**92,000**	89,000
9 February 2017	Unapproved options	2020–2027	278	**35,000**	35,000
31 May 2017	Company Share Option Plan	2020–2027	406	**7,389**	7,389
31 May 2017	Unapproved options	2020–2027	406	**22,167**	22,167
31 May 2017	Unapproved options	2020–2027	250	**300,000**	300,000
1 November 2017	Sharesave	2020–2027	952	**72,111**	84,719
10 November 2017	Company Share Option Plan	2020–2027	1,094	**106,772**	108,491
10 November 2017	Long Term Incentive Plan	2020–2027	0.5	**145,904**	148,408
1 January 2018	Unapproved options	2021–2028	300	**–**	50,000
1 January 2018	Long Term Incentive Plan	2021–2028	0.5	**–**	12,000
8 May 2018	Sharesave	2021–2028	1,044	**14,616**	24,783
17 October 2018	Company Share Option Plan	2021–2028	1,130	**65,908**	–
17 October 2018	Long Term Incentive Plan	2021–2028	0.5	**142,756**	–
8 October 2018	Sharesave	2021–2028	904	**31,177**	–
6 February 2019	Company Share Option Plan	2022–2029	886	**3,386**	–
6 February 2019	Long Term Incentive Plan	2022–2029	0.5	**558**	–
1 April 2019	Sharesave	2022–2029	783	**52,255**	–
				2,625,680	2,595,088

22. SHARE OPTIONS CONTINUED

Movements in the number of share options and warrants outstanding:

	Group and Company year ended	
	2019 Number	2018 Number
Opening balance	**2,595,088**	3,292,007
Granted	**324,021**	433,468
Exercised	**(148,850)**	(1,108,520)
Lapsed	**(144,579)**	(21,867)
Closing balance	**2,625,680**	2,595,088
Weighted average exercise price on closing balance	**295.3**	271.9

The share-based compensation charge in the profit and loss was £1,563,629 (31 May 2018: £991,724), of which £16,712 (31 May 2018: £24,427) 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.

Under the rules of the Long Term Incentive Plan, typically options are not exercisable until three years from the date of the grant. There are performance conditions attached to the options related to both profit and share price performance during the vesting period. The option holder must also be employed by the Group at time of exercise.

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:

	Sharesave April 2019	LTIP February 2019	CSOP February 2019	Sharesave October 2018	CSOP October 2018	LTIP October 2018
Share price at date of grant (p)	783	894.7	886	904	1,130	1,140
Exercise price (p)	783	0.5	886	904	1,130	0.5
Expected time to expiry (years)	4.1	4.1	4.1	3.6	3.6	3.6
Risk-free interest rate (%)	2.2837	2.2837	2.2837	2.2837	2.2837	2.2837
Expected dividend yield on shares (%)	—	—	—	—	—	—
Expected volatility of share price (%)	53.12	52.59	52.59	48.24	48.55	48.55
Fair value of options granted (p)	342.2	894.3	384.1	343.2	431.2	1,139.5

EMPLOYEE BENEFIT TRUST (EBT)

On 5 December 2014, the Company set up an EBT 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 68,150 Ordinary Shares. The Group funded the EBT £5,000,000 in September 2018 and the EBT purchased 466,173 Ordinary Shares from the market. The EBT had no other assets or liabilities at 31 May 2019 outside of its interest in 502,668 Ordinary Shares.

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 2019 £'000**	**Creditor balance 31 May 2019 £'000**	Expense paid 31 May 2018 £'000	Creditor balance 31 May 2018 £'000
Chris Sawyer – royalties	**34**	**–**	268	24
Marjacq Micro Limited – sales commission	**13**	**–**	118	26

23. RELATED PARTY TRANSACTIONS CONTINUED

Connected party	Group and Company year ended **Change in value of loan expense paid 31 May 2019 £'000**	Change in value of loan expense paid 31 May 2018 £'000
EBT – share options exercised by employees	**(133)**	148
Contribution to EBT to purchase shares on market	**5,000**	—
Voluntary contribution to the Trust to repay outstanding loan balance during year ended 31 May 2018	**(4,867)**	(148)
Movement in year	**—**	—
Opening loan balance	**—**	—
Closing loan balance	**—**	—

KEY MANAGEMENT COMPENSATION

Key management is the Executive and Non-Executive Directors of the Group. The compensation paid to key management for employee services is shown below:

	31 May 2019 £'000	31 May 2018 £'000
Directors' emoluments (including bonuses)	**1,167**	1,483
Non-Executive fees	**83**	40
Non-Executive consultancy fees	**49**	45

Consultancy fees are paid to Rockspring Ltd, a company in which David Gammon is a common Director, amounting to £49k (2018: £45k). The amount outstanding at 31 May 2019 is £5k (2018: £nil).

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.

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 and US banks.

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

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 2019			Consolidated year ended 31 May 2018			**Company year ended 31 May 2019**			Company year ended 31 May 2018		
	CAD £'000	**USD £'000**	**EUR £'000**	CAD £'000	USD £'000	EUR £'000	**CAD £'000**	**USD £'000**	**EUR £'000**	CAD £'000	USD £'000	EUR £'000
Assets	**4**	**9,324**	**1,798**	6	2,447	755	**4**	**5,348**	**1,798**	6	2,247	755

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

24. FINANCIAL INSTRUMENT RISKS CONTINUED

RISK MANAGEMENT OBJECTIVES AND POLICIES CONTINUED

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 to US Dollars and Euros. An increase in Sterling would lead to a decrease in income and a decrease in equity.

	Consolidated year ended		Company year ended	
	31 May 2019 £'000	31 May 2018 £'000	**31 May 2019 £'000**	31 May 2018 £'000
Effect of a 5% change in relevant exchange rate on:				
Income statement	**2,365**	841	**2,356**	987
Equity	**724**	367	**724**	354

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 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 or 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
At 31 May 2019				
Trade and other payables	**7,810**	**553**	**—**	**—**
At 31 May 2018				
Trade and other payables	4,543	490	—	—

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
At 31 May 2019				
Trade and other payables	**7,804**	**553**	**—**	**—**
At 31 May 2018				
Trade and other payables	4,543	490	—	—

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 2019
(REGISTERED COMPANY NO: 02892559)

	Notes	**31 May 2019 £'000**	Restated* 31 May 2018 £'000	Restated* 31 May 2017 £'000
Non-current assets				
Intangible assets	10	**36,450**	30,186	22,860
Property, plant and equipment	11	**6,352**	4,966	696
Deferred tax asset	18	**605**	—	—
		43,407	35,152	23,556
Current assets				
Trade and other receivables	12	**9,142**	6,864	2,999
Current tax asset		**81**	479	456
Cash and cash equivalents	13	**31,356**	23,924	12,414
		40,579	31,267	15,869
Total assets		**83,986**	66,419	39,425
Current liabilities				
Trade and other payables	14	**(9,021)**	(6,909)	(4,896)
Deferred income	15	**(989)**	(3,589)	(390)
Current tax liabilities	16	**(966)**	—	(747)
Provisions	17	**—**	(11)	(275)
		(10,976)	(10,509)	(6,308)
Net current assets		**29,603**	20,758	9,561
Non-current liabilities				
Provisions	17	**(13)**	—	—
Deferred income	15	**(370)**	(555)	(740)
Other payables	14	**(939)**	—	(989)
		(1,322)	(555)	(1,729)
Total liabilities		**(12,298)**	(11,064)	(8,037)
Net assets		**71,688**	55,355	31,388
Equity				
Share capital	19	**194**	193	171
Share premium account		**34,390**	34,132	14,601
Equity reserve		**(3,073)**	780	972
Retained earnings		**40,177**	20,250	15,644
Total equity		**71,688**	55,355	31,388

* Restated for a licence related accounting adjustment as per note 10.

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 £17,413,914 (2018: £3,570,588).

These financial statements were approved by the Directors on 4 September 2019 and signed on their behalf by:

ALEX BEVIS
DIRECTOR AND COMPANY SECRETARY
4 September 2019

	31 May 2019 £'000	31 May 2018 £'000
Cash generated from operations	**28,536**	10,221
Taxes received/(paid)	**480**	(34)
Cashflow from operating activities	**29,016**	10,187
Investing activities		
Purchase of property, plant and equipment	**(2,269)**	(4,660)
Expenditure on intangible assets	**(14,981)**	(13,503)
Interest received	**289**	81
Cashflow from investing activities	**(16,961)**	(18,082)
Financing activities		
Proceeds from issue of share capital	**259**	19,553
Employee Benefit Trust net investment	**(4,882)**	(148)
Cashflow from financing activities	**(4,623)**	19,405
Net change in cash and cash equivalents from continuing operations	**7,432**	11,510
Cash and cash equivalents at beginning of period	**23,924**	12,414
Exchange differences on cash and cash equivalents	**—**	—
Cash and cash equivalents at end of period	**31,356**	23,924

RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	31 May 2019 £'000	31 May 2018 £'000
Operating profit	**19,385**	2,777
Depreciation and amortisation	**9,600**	6,567
EBITDA	**28,985**	9,344
Movement in unrealised exchange (gains)/losses on forward contracts	**(345)**	292
Share-based payment expenses	**1,564**	992
Operating cashflows before movements in working capital	**30,204**	10,628
Net changes in working capital:		
Change in trade and other receivables	**(2,279)**	(4,155)
Change in trade and other payables	**609**	4,012
Change in provisions	**2**	(264)
Cash generated from operations	**28,536**	10,221

The accounting policies on pages 45 to 62 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MAY 2019

	Share capital £'000	Share premium account £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
At 31 May 2017	171	14,601	972	15,644	31,388
Profit for the year	—	—	—	3,570	3,570
Total comprehensive income for the year	—	—	—	3,570	3,570
Issue of share capital net of expenses	22	19,531	—	—	19,553
Share-based payment charges	—	—	992	—	992
Share-based payment transfer relating to option lapses	—	—	(1,036)	1,036	—
EBT share inflows from issues and/or purchases	—	—	(263)	—	(263)
EBT share outflows from option exercises	—	—	115	—	115
Transactions with owners	22	19,531	(192)	1,036	20,397
At 31 May 2018	193	34,132	780	20,250	55,355
Profit for the year	—	—	—	17,414	17,414
Total comprehensive income for the year	—	—	—	17,414	17,414
Issue of share capital net of expenses	1	258	—	—	259
Share-based payment charges	—	—	1,564	—	1,564
Share-based payment transfer relating to option lapses	—	—	(535)	535	—
EBT share inflows from issues and/or purchases	—	—	(5,000)	—	(5,000)
EBT share outflows from option exercises	—	—	118	—	118
Tax credits on share options taken directly to reserves	—	—	—	1,978	1,978
Transactions with owners	1	258	(3,853)	2,513	(1,081)
At 31 May 2019	**194**	**34,390**	**(3,073)**	**40,177**	**71,688**