14 November 2013

Frontier Developments plc

Year end results

Frontier Developments plc (AIM: FDEV; "Frontier" or the "Group"), a leading independent developer of video games with studios in Cambridge, UK and Halifax, Canada, has published its full year results for the year to 31 May 2013.

Financial highlights

- Underlying revenue up 19% to £12.0m
- Adjusted EBITDA up 12% to £3.6m
- Like for like operating profit up 27% to £1.8m
- Adjusted EPS up 27% to 7.3p
- Cash at 31 May 2013 at £7.2m (31 May 2012: £1.7m)
- Raised £2.7m via pre-IPO placing over May and June
- £3.0m provided by revolving credit facility
- Raised £1.55m for development of Elite: Dangerous through Kickstarter crowd funding site
- Listed shares on AIM in July 2013, raising £4.0m

Operational highlights

- Opened studio in Halifax, Nova Scotia
- Completed adaption of proprietary Cobra software technology to work with 64-bit CPU architectures
- Completed development and released new game IP, *Coaster Crazy*

Recent developments

- Development of Xbox One launch title based on Microsoft *Zoo Tycoon* franchise
- Continued partnerships with key industry players including Microsoft, Apple, Nintendo, Amazon and Atari
- *Elite: Dangerous* Alpha testing phase starts December 2013
- *Elite: Dangerous* backers reach 35,138 (8,304 added through Frontier's own website), and more being added daily with support nearing £2.0m.

David Braben, Chief Executive of Frontier Developments, commented:

"We are currently in a period of transition following the listing of our shares on AIM and our crowd funding exercise for the development of Elite: Dangerous. We are evolving from being primarily a developer of video games for major external publishers into a business which also manages its routes to market, by developing and licensing key technology and services to support games, both for major external publishers, other developers and our own self-published game titles.

"Our progress in the current year is encouraging. We have announced releases with key partners whilst continuing the development of Elite: Dangerous."

Enquiries:

Frontier Developments +44 (0)1223 394 300
David Braben, CEO
David Walsh, COO
Neil Armstrong, CFO

Canaccord Genuity +44 (0) 207 523 8000
Simon Bridges/Cameron Duncan

College Hill +44 (0) 20 7457 2020
Kay Larsen/Adrian Duffield

Overview

Frontier Developments is a leading developer of video games with studios in Cambridge, UK and Halifax, Canada. Frontier has a proven track record of software technology development and innovation spanning several decades of rapid technological change. The Group has leveraged its technology to develop innovative video games across a wide variety of different game genres and platforms, and has established relationships with globally renowned partners.

Frontier's proprietary Cobra software technology, developed since 1988, was initially conceived as a solution for the problem of easily porting the same game across different target hardware devices. Cobra today supports multi-core CPU and GPU architectures of PC, console, tablet and smartphone with a modular, high performance system offering of state of the art efficiency and visual fidelity that is applicable across a wide range of game genres.

Cobra incorporates a framework which enables rapid development of powerful game creation tools, which offer the ability to view, tweak and review changes to content (e.g. animations, audio, 3D models etc.) on target platforms in a live game session running on that platform, without the intervention of a programmer.

The year to 31 May 2013 and the current financial year are transitional years for Frontier. The Group concluded a very successful crowd-funding programme to support the development of *Elite: Dangerous*. Since year end Frontier has also completed the listing of the Group's shares on AIM by way of an initial public offering (IPO).

Frontier is making good progress from being primarily a developer of video games for major external publishers into a business which develops and licenses technology to support games for major external publishers, other developers and Frontier's own self-published game titles.

To fund this transition Frontier raised £9.7m in three tranches; £2.7m came via a pre-IPO placing over May and June; £4.0m from institutions that subscribed for new shares in the IPO; and £3.0m has been provided by the Group's bankers through a revolving credit facility.

The Group's investment programme in its platform technology will benefit and facilitate better and more cost effective results for its third party publisher games, like *Zoo Tycoon*, and will also improve Frontier's own self-published offering with *Elite: Dangerous* and other games going forwards. The high graphical quality and very efficient development Frontier has achieved with *Zoo Tycoon* is a great demonstration of this capability.

Elite: Dangerous will be sold directly to customers through Frontier's own e-commerce platform and through third parties.

Frontier is in transition as its publishing activity with *Elite: Dangerous* and the associated new services ramp up. Although the opportunities and scope for *Elite: Dangerous* to grow and develop are very substantial and the potential financial rewards significant, particularly given how fast the Group's markets grow and change, it is very difficult for the Board to know exactly how quickly it will be taken up. For example, some PC online games (*Elite: Dangerous* is a PC online game) that have caught the public's imagination such as *Minecraft* and *World of Tanks* have reached estimated revenues of over £100m per annum over a small number of years. Others have not grown quite so quickly, but on the additional platforms the levels of success could be higher still.

Frontier expects *Elite: Dangerous* revenues to grow gradually in a similar way to other PC online games, but also that it will hit a quality resonance at which point revenues would increase significantly, as it did for those other titles.

In the financial year to 31 May 2013, Frontier saw a 19% underlying increase in revenue and a 12% rise in EBITDA. Headline revenue decreased by 14%, and reported EBITDA showed an 11% reduction. This was the result of pass-through revenue booked in 2012 that did not apply in 2013. Like-for-like operating profit and adjusted earnings per share also grew.

Operational review

In addition to Frontier's strong financial performance in the year ended 31 May 2013, the Group saw a number of operational highlights during the financial year:

Studio in Halifax, Nova Scotia
Frontier opened its first overseas studio, in Halifax, Nova Scotia, Canada in August 2012. North America is a strategically important region for the games industry. The Group selected Nova Scotia due to the attractiveness of the province's Digital Media Tax Credit program, its geographic location and the new talent pool offered by the existing healthy ICT sector and local universities.

Further Cobra technology developments
Frontier completed the adaption of its proprietary Cobra software technology to work with 64-bit CPU architectures, which will allow the Group to continue to extract maximum performance from the new generation of CPUs starting to appear in console, smartphone and tablet hardware. Frontier now has a proven, mature solution for taking full advantage of 64-bit multi-core processor systems as used in key new hardware target platforms such as the Xbox One, PlayStation 4, iPhone 5S and iPad Air.

Coaster Crazy
Frontier completed development and released a new game IP, *Coaster Crazy*. The game was based on Frontier's cross-platform Cobra technology and incorporated very sophisticated rollercoaster construction techniques, which are based on the Group's experience as a world leading rollercoaster game creator.

Coaster Crazy was Frontier's first game with a cloud-based server backend. The game achieved a maximum of over 500,000 concurrent users with Frontier's server technology performing well. The Group released *Coaster Crazy* on iOS devices, and as with *LostWinds* and *LostWinds2* on iOS, the game received significant promotion from Apple. In addition Frontier promoted it via in-game cross-selling in the Group's own *LostWinds* iOS games and used third party marketing channels.

Crowd-funding for Elite: Dangerous
In November 2012 the Group started a 60-day crowd-funding campaign using both Kickstarter.com and Frontier's own website. When the Kickstarter campaign closed on 4 January 2013 Frontier had raised £1.55m, exceeding the Group's 'ask' of £1.25m. This was the highest crowd-funding target ever successfully achieved on Kickstarter. In total, 26,834 individuals backed the project, and a further 8,304 have since participated through Frontier's own website.

The scale of the response clearly demonstrates the viability of the *Elite: Dangerous* project. Frontier had previously been running the project in order to develop the key innovative technologies necessary to deliver the game's vision, and this additional funding has allowed the Group to put it into full production. Frontier continues to successfully communicate with the large customer/stakeholder community that has provided this funding, and this close dialogue and engagement will continue to the initial launch of the game and beyond.

Key industry partnerships
The Group also continued its close working relationship with Microsoft, starting development of an Xbox One launch title based on Microsoft's popular *Zoo Tycoon* franchise, providing experience on the new console hardware early. This is in addition to working with other important partners such as Apple, Nintendo, Amazon, and Atari.

Recent developments
Frontier has continued working with Microsoft on *Zoo Tycoon*, planned for commercial release in November 2013 alongside the Xbox One launch, as one of the five full disc-based games to be released by Microsoft Studios at the launch of Xbox One.

The Group also announced *Coaster Crazy Deluxe* for the Nintendo WiiU – this game is an extension of the *Coaster Crazy* title and will use more new online functionality. Frontier has taken advantage of partnering opportunities with Nintendo to promote the game.

The Group also announced a new relationship with Atari at the end of October, whereby Frontier's e-commerce strategy is accelerated. The Group now has the rights to publish Atari games, as well as the possibility of releasing *Roller Coaster Tycoon 3* on other platforms.

In October, the Group also announced that the Alpha testing phase for *Elite: Dangerous* will begin in December 2013, and that the Group is planning to support the Oculus Rift virtual reality headset in the game.

Financial review

The Group's underlying trading performance was improved from the prior year. The Group is now entering an investment phase up to the launch of *Elite: Dangerous* and associated technology development and licensing.

Revenue
Frontier delivered 19% growth in underlying revenue after excluding sub contract costs recharged to customers at nil margin.

Underlying Revenue £'000	2012-3	2011-2	%
Headline Revenue	12,072	14,157	(15%)
Sub contract pass through	(26)	(4,033)	(99%)
Underlying Revenue	12,046	10,124	19%

The launch of *Coaster Crazy* and recognition of *Elite: Dangerous* revenues enabled the Group to show growth in self-published revenues of 58%. Growing the Group's self-published revenue stream is one of Frontier's strategic aims.

The Group recognised an element of revenue for *Elite: Dangerous* from the crowd-funding raise on commencement of delivery of pledges, and sold £0.02m of merchandise in the year. The *LostWinds* iOS titles continued to sell at 88% of their prior year level.

Publishing revenue was lower, as Frontier did not work on any game titles that required significant sub contract pass through revenues. The Group worked on three projects for a key client, two of which are due to be released in the financial year 2013-14.

Intangible investment and R & D
Investment in Frontier's own IP capitalised in the year was up 27% at £1.7m, reflecting Frontier's commitment to a strategic software development programme in respect of the Group's Cobra technology and self published titles.

A good proportion of the Group's investment is in Research and Development, representing £0.76m (2012: £0.73m) an increase of 4%. Research and Development expensed rose to £0.6m from £0.33m.

Margins
The overall gross margin rose to 30% from 20%. On an underlying basis, after stripping out pass through recharges the improvement was 2%. This underlying improvement stemmed mainly from improved margins in the Publication business exceeding a lower margin for self published titles which are impacted by a cautious approach on capitalisation and amortisation in the relatively new mobile platform segment.

Frontier is in a state of transition, following its listing of the Group's shares on AIM in July 2013. As a consequence the Board monitors performance on an adjusted EBITDA basis. The adjusting items were primarily Share Based Compensation and funding costs associated with the IPO.

Operating profit was 24% lower at £1.05m and EBITDA 11% lower at £2.85m.
Compared to the previous financial year on a like-for-like basis, without the one-off funding costs and share based compensation, operating profit rose 27%. Adjusted EBITDA rose 12% to £3.62m.

The reconciliation is as follows:

	2012-13	2011-12	%
	£'000	£'000	
Operating profit	1,052	1,390	(24%)
Depreciation	151	185	
Amortisation	1,650	1,623	
EBITDA	2,853	3,198	(11%)
Share based compensation	416	-	
Funding costs	308	-	
Dilapidations provision	37	37	
Canada set up fees	10	-	
EBITDA adjusted	3,624	3,235	12%

Tax base
The charge in the year remained low, mainly comprising a rebate on overseas tax of £5,735 and UK tax on finance income of £3,716. The Group recorded a deferred tax liability of £27,793 for overseas tax due to the timing difference over which R&D tax relief and a local Digital media tax rate operate. The holding company continues to hold unused tax losses of £3.69m to set against future taxable profits generated in the UK.

Earnings per share
Basic earnings per share reduced to 4.2 pence per share from 5.7 pence based on a weighted average number of shares of 25.0m (2012: 24.7m).

On a diluted basis, earnings per share dropped to 5.5 pence from 4.1 pence based on a weighted average number of shares of 25.5m (2012: 25.5 m).

The adjusted earnings per share rose to 7.3 pence from 5.8 pence per share on an undiluted basis (a 25% increase), as a result of the improved adjusted EBITDA figure.

Dividends
The Directors are not recommending the payment of a dividend (2012: £nil).

Balance sheet summary
The Group received convertible loans to the value of £1.13m just prior to year end and increased net investment in intangibles to £3.5m.

Trade and other receivables decreased by £0.42m to £2.08m mainly as a result of receipt of contracted income from publication customers.

Trade and other payables increased by £2.19m to £3.06m. The main drivers for this increase were convertible loan notes of £1.13m, deferred income of £0.56m and funding cost accruals of £0.23m.

Deferred income constituted both crowd-funding 'pledges' expected to be delivered within one year for *Elite: Dangerous* and Publication contract revenue.

Cashflow
The Group's operating cashflow rose by £4.1m to £6.2m mainly driven by the working capital changes. These comprised a £1.56m raise from a successful Kickstarter campaign for *Elite: Dangerous.* In addition the Group raised £1.13m from the issue of convertible loan notes.

The Group invested £2.0m in non-current assets, up by £0.57m.

Non cash costs included share based compensation charges of £0.42m (2012: £nil)
Cash balances were also increased by the injection of £0.17m of share capital proceeds.

The overall impact was an increase of £5.47m in cash and cash equivalents to £7.16m, being a positive staging point for the Group's investment and growth plans.

Current trading and outlook

Frontier's progress in the current financial year is encouraging. The Group has announced several high profile releases with key partners, whilst the development of *Elite: Dangerous* is on track, with the Alpha testing phase due to begin in December 2013.

In the year to 31 May 2014, Frontier expects to further execute its plans to maintain its existing valued relationships, focus strongly on the development and launch of *Elite: Dangerous,* and continue to invest significant resources in the development of the Group's technology for third party use. Frontier expects revenues from its traditional publishing business to reduce whilst the Group invests in building the new elements required for the transition.

The Group is confident that other developers and/or publishers will take advantage of Frontier's sales portal and cross platform technology, and over time Frontier will cover an increasing number of games, platforms, new features and facilities.

Consolidated income statement

	Notes	31 May 2013 £'000	31 May 2012 £'000
Revenue	4	12,072	14,157
Cost of sales		(8,375)	(11,259)
Gross profit		3,697	2,898
Administrative expenses		(2,645)	(1,508)
Operating profit		1,052	1,390
Finance income	19	19	10
Profit before tax	5	1,071	1,400
Income tax	20	(26)	(2)
Profit for the period		1,045	1,398

All the activities of the Group are classified as continuing.

Earnings per share	21		
Basic earnings per share		4.2p	5.7p
Diluted earnings per share		4.1p	5.5p

Consolidated Statement of Comprehensive Income

	31 May 2013 £'000	31 May 2012 £'000
Profit for the period	1,045	1,398
Other Comprehensive income:		
Items that will be reclassified subsequently to the profit and loss		
Exchange differences on translation of foreign operations	3	-
Total comprehensive income for the period attributable to the owners of the Group	1,048	1,398

Consolidated statement of financial position

	Notes	31 May 2013	31 May 2012
		£'000	**£'000**
Non-current assets			
Intangible assets	6	3,450	3,331
Property, plant and equipment	7	299	185
Total non-current assets		3,749	3,516
Current assets			
Inventories	11	-	75
Trade and other receivables	12	2,082	2,505
Cash and cash equivalents	13	7,155	1,686
Current assets		9,237	4,266
Total assets		**12,986**	**7,782**
Equity and liabilities			
Equity			
Share capital	14	127	12
Share premium account		1,847	1,794
Option reserve		643	263
Foreign exchange reserve		3	-
Retained earnings		5,775	4,694
Total equity		8,395	6,763
Liabilities			
Current			
Trade and other payables	17	3,060	867
Current tax liabilities		33	2
		3,093	869
Non-current			
Provisions	18	187	150
Deferred income	17	1,283	-
Deferred tax	10	28	-
		1,498	150
Total liabilities		4,591	1,019
Total equity and liabilities		**12,986**	**7,782**

Consolidated statement of cash flows

	Notes	31 May 2013	31 May 2012
		£'000	£'000
Operating activities			
Profit after tax		1,045	1,398
Adjustments	22	2,198	1,829
Net changes in working capital	22	2,923	(1,174)
Taxes (paid)/received		(5)	12
Cash flow from operating activities		6,161	2,065
Investing Activities			
Purchase of property, plant and equipment		(251)	(28)
Expenditure on intangible assets		(1,783)	(1,433)
Interest received		19	10
Cash flow from investing activities		(2,015)	(1,451)
Financing activities			
Proceeds from convertible loan notes		1,129	-
Proceeds from issue of share capital		168	-
Cash flow from financing activities		1,297	-
Net change in cash and cash equivalents from continuing operations		5,443	614
Cash and cash equivalents at beginning of period		1,686	1,064
Exchange differences on cash and cash equivalents		26	8
Cash and cash equivalents at end of period		7,155	1,686

Consolidated statement of changes in equity

	Share capital	Share premium account	Option reserve	Foreign exchange reserve	Retained earnings	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 May 2011	12	1,794	364	-	3,195	5,365
Share based payment transfer	-	-	(101)	-	101	-
Transactions with owners	-	-	(101)	-	101	-
Profit for the year	-	-	-	-	1,398	1,398
Total comprehensive income for the year	-	-	-	-	1,398	1,398
At 31 May 2012	12	1,794	263	-	4,694	6,763
Increase in equity in relation to options issued	-	-	416	-	-	416
Share based payment transfer	-	-	(36)	-	36	-
Issue of share capital	1	167	-	-	-	168
Redenomination of Share Capital	114	(114)	-	-	-	-
Transactions with owners	115	53	380	-	36	584
Profit for the year	-	-	-	-	1,045	1,045
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	3	-	3
Total comprehensive income for the year	-	-	-	3	1,045	1,048
At 31 May 2013	127	1,847	643	3	5,775	8,395

Selected Notes to the financial statements

1. 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. The financial information is presented in Sterling, the presentation currency for the Group and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The preparation of this financial information requires the Directors to make critical accounting estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2. Principal 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 has the power to control the financial and operating policies through its share ownership. 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.

a) *Business Combinations*

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

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

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

b) *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 elements:

- Development Tools
- Software (self published games)
- Software (third party)

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

- Completion of the intangible asset is technically feasible so that it will be available for use in developing games (in respect to Development Tools) or for sale of games (in respect to self published software).

- The Group intends to complete the intangible asset and has the ability to use or licence 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.

- 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 two and five years. Until completion the assets are subject to annual impairment testing. Amortisation commences upon completion of the asset, and is shown within cost of sales 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.

c) *Impairment of property, plant and equipment and intangible assets*
At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and individual intangible assets for any indication that these assets have suffered an impairment loss. Until the internally generated intangible assets are available for use when amortisation can be charged, the assets are subject to an annual impairment test. Intangible assets already being amortised are also reviewed for any indication that the asset has suffered an impairment. 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 and value in use.

Fair value in use is measured for self published games by discounting future cashflows. For all other assets a review of the expected useful economic life is undertaken and compared to that implied in the amortisation rate.

d) Financial liabilities
The Group's financial liabilities include trade and other payables, and convertible loan notes. 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). All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

The Convertible Loan Notes issued in the year are recognised as financial liabilities rather than equity as their characteristics are more akin to debt rather than equity.

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

Revenue includes income from the design and production of computer software contracted for customers, royalties from published games, income from the release of self published games, and crowd sourced funding pledges.

Revenues on project contracts are mapped against the expected profile of costs. In most circumstances these are closely correlated.

Where there is close correlation between the revenue and cost profile, the milestones within the project contracts are considered to approximate the stage of completion of the obligations under the contract and therefore recognition of revenue based on these milestones provides a sufficiently accurate approximation of recognition of revenue on a stage of completion basis, except for where there are significant acceptance requirements. Under such arrangements, revenue is recognised when the Group has substantially met all its performance obligations, and the customer has approved the relevant milestone.

Where there is less correlation between the revenue and cost profile, revenue from customer specific contracts, are recognised on the stage of completion of each assignment (milestone) at the period end date compared to the total estimated service based on the estimate of labour and other costs to be provided over the entire contract where the outcome can be estimated reliably. If a contract outcome cannot be estimated reliably, revenues are recognised equal to costs incurred, to the extent that costs are expected to be recovered. An expected loss on a contract is recognised immediately in the income statement.

Additionally project contracts may contain provision for the pass through of sub contract costs, these are recharged on a matching basis in the same period as the underlying cost.

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

Revenue from released self published titles is recognised on download of the game or part thereof (micro transaction) from the sales channel and/or distribution platform.

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

f) Share-based payment transactions

Share options are periodically granted to staff. Share Options are measured at fair value at the date of issue 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 the expiry date of the options prior to any public listing. The share-based payment is recognised as an expense in profit or loss, together with a corresponding credit to a share-based payment reserve in equity. 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.

g) Foreign currencies

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

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

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 actual 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.

3. Significant Accounting Estimates and Key Judgements

The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Intangible assets
The Group invests heavily in research and development. The identification of development costs which 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 intangible assets at May year end are: £3,449,515 (2012: £3,331,253).

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 cash flows.

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

b) Trade receivables and recovery of work in progress
Trade receivables are stated net of any impairment for bad and doubtful debts, based on the Group’s best estimate of the likelihood of recovery on a specific basis. Recovery of work in progress is dependent on the successful completion of projects. Judgement is therefore needed to be applied for projects which are in progress regarding the ability of the Group to complete and deliver the project in accordance with contractual terms.

c) 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.

d) Revenue recognition
Significant management judgement is applied in determining the allocation and timing of the recognition of revenue on contracts. In this process management takes into account milestones, actual work performed and further obligations and costs expected to complete the work. Management monitor the progress and have regular dialogue with customers to confirm the project status.

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 a single operating segment being the design and production of computer software irrespective of platform or route to market. Resources are managed on the basis of the Group as a whole.

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

	31 May 2013	31 May 2012
	£'000	£'000
United Kingdom (country of domicile)	113	29
United States of America	11,684	13,905
Rest of the World	275	223
	12,072	**14,157**

At May 2013 £72,574 of non-current assets are based in Canada, with the remainder in the UK. Up until August 2012 all non-current assets were based in the UK.

In 2013 and 2012 periods there was one customer whose revenue accounted for more than 10% of the group and Group's total revenue. The customer is based in United States of America and totals 94% (2012: 95%) of the annual revenue.

All material revenue is categorised as either 'self published', 'publishing' or royalties. The majority of the revenue is services provided, however, a small proportion of the 2012/13 revenue was for goods provided.

	31 May 2013	31 May 2012
	£'000	£'000
Publishing	11,355	13,499
Self published	511	323
Royalties	203	335
Other	3	-
	12,072	**14,157**

EBITDA before material exceptional items is a key performance indicator for the Group and is also used by the Chief Executive Officer and is calculated as follows:

	31 May 2013	31 May 2012
	£'000	£'000
Operating profit	1,052	1,390
Depreciation	151	185
Amortisation	1,650	1,623
EBITDA	**2,853**	**3,198**
Share based compensation	416	-
Funding costs	308	-
Dilapidation provision	37	37
Canada set up fees	10	-
EBITDA adjusted	**3,624**	**3,235**

5. Profit before tax

This is stated after charging/(crediting):	31 May 2013 £'000	31 May 2012 £'000
Amortisation and impairment on intangibles	1,650	1,623
Depreciation of owned property, plant and equipment:	151	185
Loss on disposal of fixed assets	-	1
Research and development costs expensed	603	333
Auditor remuneration:		
Audit services – statutory audit	37	11
Non audit services - tax services	4	3
- other services	133	10
Operating leases – land and buildings	495	415
Foreign exchange gain	(26)	(8)

6. Intangible assets
Group

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

	Development tools & licences	Self published software	Third party software	Total
	£'000	£'000	£'000	£'000
Cost				
At 31 May 2011	5,181	85	647	5,913
Additions	574	769	90	1,433
Disposals	(732)	-	-	(732)
At 31 May 2012	5,023	854	737	6,614
Additions	695	1,013	75	1,783
Disposals	(768)	-	-	(768)
Transfer to tangibles	-	-	(17)	(17)
Transfer from tangibles	-	-	14	14
Adjustment	-	(78)	-	(78)
At 31 May 2013	4,950	1,789	809	7,548
Amortisation and impairment				
At 31 May 2011	1,979	5	408	2,392
Charge for the period	1,207	287	129	1,623
Disposals	(732)	-	-	(732)
At 31 May 2012	2,454	292	537	3,283
Charge for the period	1,093	446	111	1,650
Disposals	(768)	-	-	(768)
Transfer to tangibles	-	-	(1)	(1)
Transfer from tangibles	-	-	12	12
Adjustment	-	(78)	-	(78)
At 31 May 2013	2,779	660	659	4,098
Net Book Value at 31 May 2013	2,171	1,129	150	3,450
Net Book Value at 31 May 2012	2,569	562	200	3,331

All amortisation charges, impairments (or reversals if any) are included within cost of sales.

7. Property, plant and equipment
Group

	Fixtures & Fittings	Computer Equipment	Leasehold Improvements	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 31 May 2011	258	1,035	4	1,297
Additions	-	28	-	28
Disposals	(1)	(108)	-	(109)
Reversals	(36)	-	-	(36)
At 31 May 2012	221	955	4	1,180
Additions	19	226	6	251
Disposals	-	(5)	-	(5)
Transfer from Intangibles	-	17	-	17
Transfer to Intangibles	-	(14)	-	(14)
At 31 May 2013	240	1,179	10	1,429
Depreciation				
At 31 May 2011	113	801	4	918
Charge for the period	54	144	-	198
Disposals	(1)	(107)	-	(108)
Reversals	(13)	-	-	(13)
At 31 May 2012	153	838	4	995
Charge for the period	33	117	1	151
Disposals	-	(5)	-	(5)
Transfer from intangibles	-	1	-	1
Transfer to intangibles	-	(12)	-	(12)
At 31 May 2013	186	939	5	1,130
Net Book Value at 31 May 2013	54	240	5	299
Net Book Value at 31 May 2012	68	117	-	185

Depreciation charges (or reversals if any) are apportioned to the income statement as follows:

	Consolidated year ended	
	31 May 2013	**31 May 2012**
	£'000	**£'000**
Charge		
Cost of sales (including reversals)	89	144
Administration expenses	62	41
Total	151	185

8. Operating leases as lessee

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

	Consolidated year ended	
	31 May 2013	31 May 2012
	£'000	£'000
Minimum lease payments due within one year	535	469
Minimum lease payments due within one to five years	801	947
Total	1,336	1,416

Group lease payments recognised as an expense during the year ended May 2013: £495,269 (May 2012: £414,983).

The lease payments relate to the rental contracts for the office buildings, which expire April 2015, and August 2015. The lease signed in October 2012 for the Canadian subsidiary expires September 2017.

The Group's operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding dividends, further leasing or additional debt.

9. 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	
Financial assets	31 May 2013	31 May 2012
	£'000	£'000
Loans and receivables		
Trade and other receivables	1,808	2,362
Cash and cash equivalents	7,155	1,686
Total	8,963	4,048

	Consolidated year ended	
Financial liabilities	31 May 2013	31 May 2012
	£'000	£'000
Financial liabilities measured at amortised cost		
Current		
Trade and other payables	1,122	585
Designated at fair value through profit and loss		
Convertible Loan Notes	1,129	-
Total	2,251	585

The financial liability associated with the Convertible loan notes comprised interest cashflows payable at 8% and an embedded derivative liability to convert to a variable number of shares. Given that the loan note was issued near the period, the liability is based on the net proceeds received. The loan notes converted to equity on the Admission to AIM.

10. Deferred tax assets and liabilities

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

	Consolidated year ended	
	31 May 2013	31 May 2012
	£'000	£'000
Accelerated capital allowances	520	533
Short term temporary differences	(39)	(36)
Tax losses (restricted)	(453)	(497)
Total liability	28	-
Balance b/fwd	-	-
Effect of tax rate change on opening balance	-	-
Movement in year	28	-
Balance c/fwd Liability	28	-

No deferred tax asset at 31 May 2013 has been recognised in the statement of financial position for the Group. The deferred tax liability at 31 May 2013 is £27,793 (2012: £nil) being wholly attributable to the Canadian entity.

The table below summarises the deferred tax assets for the Group which have not been recognised in the financial statements as only a proportion of the tax losses are anticipated to crystallise or be able to be used in the foreseeable future. Total UK tax losses available at 31 May 2013 amount to £3,694,177 (2012: £3,729,030).

	Consolidated year ended	
	31 May 2013	31 May 2012
	£'000	£'000
Deferred tax asset not provided		
Losses	(397)	(398)

11. Inventories

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

	Consolidated year ended	
	31 May 2013	31 May 2012
	£'000	£'000
Work in progress	-	75

There is no material difference between the replacement cost of inventory and the amounts stated above.

For the year ended 31 May 2013 a total of £94,366, (May 2012: £183,687) was included in profit and loss as an expense/(credit) to cost of sales.

12. Trade and other receivables

Trade and other receivables recognised in the Statement of Financial Position can be analysed as follows:

	Consolidated year ended	
	31 May 2013	31 May 2012
	£'000	£'000
Trade receivables, gross	1,580	2,153
Allowances for credit losses	-	-
Trade receivables, net	1,580	2,153
Other receivables	228	209
Financial assets	1,808	2,362
Prepayments	230	88
VAT and taxation	44	55
Non-financial assets	274	143
Trade and other receivables	2,082	2,505

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

Group

	Total	Neither past due nor impaired	Past due but not impaired 0 – 90 days	Past due but not impaired >90 days
	£'000	£'000	£'000	£'000
May 2013	1,580	1,580	-	-
May 2012	2,153	2,153	-	-

No other receivables are past their due date.

A reconciliation of the allowances for credit losses provision for trade receivable is provided below:

	Consolidated year ended	
	31 May 2013	31 May 2012
	£'000	£'000
Brought forward provision	-	2,169
Debts written off in period	-	(2,169)
Carried forward provision	-	-

13. Cash and cash equivalents

Cash and cash equivalents include the following components

	Consolidated year ended 31 May 2013 £'000	31 May 2012 £'000
Cash at bank and in hand		
• GBP	5,411	1,671
• USD	1,218	5
• EUR	22	10
• CAD	504	-
Financial assets	7,155	1,686

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

14. Equity Share Capital

Group movements in share capital

Movements in Ordinary Shares is as follows:	Number '000	Value £'000
At 1 June 2011 and 31 May 2012		
Ordinary Shares of 0.1p	12,364	12
Shares issued on option exercises	253	1
Shares re-denominated to 0.5p	12,617	114
At 31 May 2013	25,234	127

During the period to 30 November 2012 252,691 Ordinary shares of 0.1p were allotted as fully paid at a premium of 65.9 pence per share.

On the 21 December 2012 the company re-organised into a plc and bonus shares were issued on a 9 to 1 basis out of share premium, on the same day the Ordinary shares were re-denominated to 0.5p per share. The combined effect of these changes resulted in the addition of 12,617,023 shares and a transfer from share premium of £113,553.

15. Employee remuneration

Expenses recognised for employee benefits (including Directors) are analysed below:

Staff costs for all employees, including Directors, consist of:	31 May 2013 £'000	31 May 2012 £'000
Wages & salaries	7,517	7,248
Social security costs	774	764
Pension costs	-	3
Share based compensation	416	-
	8,707	8,015

Included in the above payroll costs for the year ended 31 May 2013 is £1,621,571, (2012: £1,251,545) capitalised within intangible fixed assets (note 7). Pension costs relate to contributions to one employee's private pension plan.

The average number of employees, including Directors, during the period were:	31 May 2013 £'000	31 May 2012 £'000
Research and development	212	209
General and administrative	14	6
	226	215

Remuneration of Directors	31 May 2013 £'000	31 May 2012 £'000
Directors' emoluments	318	273
Non-executive fees	25	8

Emoluments of highest paid director	31 May 2013 £'000	31 May 2012 £'000
Emoluments	99	81

Remuneration of key management personnel	31 May 2013 £'000	31 May 2012 £'000
Short-term employee benefits:		
Salaries including bonuses	755	573
Social security	101	72
Total short-term employee benefits	856	645
Non executive fees	25	8
Share based compensation charge	183	-

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

Number of key management personnel, including directors at the statement of financial position date	11	8

A total of 648,000 share options were issued in the year to key management including directors. The number of options exercised for Ordinary Shares from the December 2002 EMI grant was 449,060 (restated after redenomination).

16. Share options

The Group has an employee share option scheme (EMI scheme), under which options may be granted to employees (including directors) to subscribe for ordinary shares in the Group. The scheme was approved by shareholders in a general meeting. The 2012 Number and Option price has been restated in the respect to the redenomination of share capital *.

Date of Grant	**Scheme Type**	**Period when exercisable**	**Price in pence***	**2013 Number**	**2012 Number (Restated)***
12 November 2002	2002 EMI Scheme	2003-2012	33p	-	926,000
06 December 2005	2002 EMI Scheme	2006-2015	67p	843,800	943,800
30 July 2012	2012 EMI Scheme	2013-2011	89p	1,214,000	-
30 January 2013	Unapproved	2014-2023	89p	100,000	-
15 May 2013	2012 EMI Scheme	2014-2023	95p	240,000	-
15 May 2013	Unapproved	2014-2023	95p	20,000	-
				2,417,800	1,869,800

Movements in the number of share options outstanding and their related weighted average exercise price, as restated for the Share re-denomination in December 2012 are as follows:

	Group year ended			
	May 2013		May 2012 (restated)*	
	Number	**Average exercise price in pence**	**Number**	**Average exercise price in pence**
Opening balance	1,869,800	50.2	2,303,800	52.2p
Granted	1,626,000	90.0	-	-
Exercised	(505,382)	33.0	-	-
Forfeited	(572,618)	44.0	(434,000)	61.2p
Closing balance	2,417,800	82.0	1,869,800	50.2p
Exercisable at the year end	843,800	67.0	1,869,800	50.2p

There was no weighted average share price at the date of exercise of the share options, as the company was not quoted. The share options at the end of May 2013 have a weighted average contractual life as follows:

		Group year ended			
		May 2013		May 2012 (restated)*	
	Exercise price per share	**Options**	**Weighted average remaining contractual life**	**Options**	**Weighted average remaining contractual life**
Expiry date	**Pence**	**Number**	**Months**	**Number**	**Months**
November 2012	33	-	-	926,000	6
December 2015	67	843,800	31	943,800	43
July 2022	89	1,214,000	108	-	-
January 2023	89	100,000	116	-	-
May 2023	95	260,000	120	-	-
Total		2,417,800	83	1,869,800	25

Under the rules of the share option schemes, options are not normally exercisable until one year from the date of the grant. Options are valued at date of grant using the Black Scholes Option Pricing Model. There are no performance conditions attaching to the options.

The significant inputs into the model were calculated share price at the grant date, exercise price volatility of 20% and expected option life of 10 years and given that the company was not listed at date of grants, an annual risk free interest rate of 3.87% - 4.15%. The volatility used is based on similar companies. The only vesting condition is continued service in the company.

17. Trade and other payables

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

	Consolidated year ended	
	31 May 2013	**31 May 2012**
	£'000	**£'000**
Trade payables	183	40
Other taxation and social security	284	188
Accruals and deferred income	1,464	639
Convertible loan note	1,129	-
Total trade and other payables	3,060	867

Trade and other payables are due within one year and with the exception of the Convertible loan note are non-interest bearing. The Convertible loan note carries an interest rate of 8% per annum. The loan notes are convertible into ordinary shares on an AIM IPO at a discount rate of 15% of the listing price. The carrying values of trade and other payables are considered to be a reasonable approximation of fair value.

Payable over more than one year	Consolidated year ended	
	31 May 2013	**31 May 2012**
	£'000	**£'000**
Deferred income	1,283	-

Deferred income payable over one year represent crowd sourced income recognised where the expected pledge level to which it relates is not expected to be delivered until after one year.

18. Provisions for dilapidations

	Consolidated year ended	
	31 May 2013	**31 May 2012**
	£'000	**£'000**
Opening balance	150	113
Provided for in period	37	37
At period end	187	150

The dilapidation provision relates to the rental contracts for two office buildings (included within note 8). These leases expire April 2015 and August 2015. This is when the majority of this expenditure is expected to be incurred. 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 lease of the premises in Canada has no repair conditions.

19. Finance income

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

	May 2013 £'000	May 2012 £'000
Interest income from cash and cash equivalents	19	10

20. Taxation on ordinary activities

(a) Analysis of the charge in the period:

	May 2013 £'000	May 2012 £'000
UK Corporation Tax based on the results for the year	4	2
Overseas Tax on the results for the period	(6)	-
Deferred Tax	28	-
Tax on profit on ordinary activities	**26**	2

(b) Factors affecting tax expenses:

The tax assessed on the profit on ordinary activities for the year differs from the effective tax rate of corporation tax 24.1% (2012: 24%) as follows:

	31 May 2013 £'000	31 May 2013 £'000
Profit on ordinary activities before taxation	1,071	1,400
Tax on profit on ordinary activities at standard rate	258	336
Factors affecting tax expense for the year:		
Adjustment on transition to IFRS	-	(124)
Expenses not deductible for tax purposes	215	-
Adjustments for opening deferred tax average rate	16	-
Deferred tax not provided	(1)	13
Research and development tax credits	(397)	(223)
Exercise of share options	(65)	-
Total amount of tax	26	2

Factors that may affect future tax charges

The Group takes advantage of the enhanced tax deductions for research and development expenditure in the UK and expects to continue to be able to do so. From 1 April 2013 the Video Games Tax Relief becomes available and the Group expects that some of its work will qualify for this relief.

21. Earnings per Share

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the year. Separate calculations have been performed to a profit taking out the adjusted items in note 4 Adjusted EBITDA computation.

	May 2013	**May 2012**
Profit attributable to shareholders (£'000)	1,045	1,398
Weighted average number of Shares	25,014,043	24,728,664
Basic earnings per share (pence)	4.2	5.7

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 diluted share options.

	May 2013	**May 2012**
Profit attributable to shareholders (£'000)	1,045	1,398
Weighted average number of Shares	25,495,040	25,572,937
Diluted Basic earnings per share (pence)	4.1	5.5

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

Weighted average number of ordinary shares	**May 2013**	**May 2012**
Ordinary shares	25,014,043	24,728,664
Under option	480,997	844,273
Diluted average number of shares	25,495,040	25,572,937

The calculation of the adjusted earnings per share, as calculated by external analysts, is based on the profit after tax, adjusted for acquired intangible assets. Separate calculations have been performed to a profit taking out the adjusted items:

	May 2013	May 2012
Adjusted Profit attributable to shareholders (£'000)	1,816	1,435
Weighted average number of Shares	25,014,043	24,728,664
Adjusted Basic earnings per share (pence)	7.3	5.8
Weighted average number of Shares (diluted)	25,495,040	25,572,937
Adjusted diluted earnings per share (pence)	7.1	5.6

Adjusted profit	**May 2013**	**May 2012**
	£'000	£'000
Profit attributable to shareholders	1,045	1,398
Share based compensation	416	-
Funding costs	308	-
Dilapidations provision	37	37
Set up of Canadian Subsidiary	10	-
Adjusted profit	1,816	1,435

22. Cash flow adjustments and changes in working capital

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

Group adjustments and changes

Adjustments:	**May 2013**	**May 2012**
	£'000	**£'000**
Depreciation, amortisation and impairment	1,801	1,808
Adjustment of cost of property, plant and equipment (see note 8)	-	36
Finance income	(19)	(10)
Loss on disposal of fixed assets and available for sale assets	-	1
Share based payment expenses	416	-
Taxation	26	2
Foreign exchange	(26)	(8)
Total adjustments	2,198	1,829
Net changes in working capital:		
Change in inventories	75	184
Change in trade and other receivables	464	(373)
Change in trade and other payables	1,064	(1,022)
Change in non–current liabilities	1,320	37
Total changes in working capital	2,923	(1,174)

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

	Consolidated year ended			
Connected party	**Expense paid May 2013**	**Creditor balance May 2013**	**Expense paid May 2012**	**Creditor balance May 2012**
	£'000	**£'000**	**£'000**	**£'000**
Chris Sawyer – Royalties	53	6	76	18
Marjacq Micro Limited – Sales Commission	27	-	29	6

One Director was granted an interest free qualifying loan for the purchase of Shares under the Group's Share Option Plan in April 2010. The loan value was £8,000 at 31 May 2013. The loan was repaid to the Company in June 2013.

David Braben has assigned his rights to the Elite franchise to the Company pursuant to an assignment agreement dated 1 June 2008. The Company has agreed to pay a royalty of 10% of the profits in respect of Elite sequels, including Elite Dangerous. There is no royalty currently due payable under this agreement (2012: £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 9. The main types of risks are credit risk, currency risk and liquidity risk.

The Group's risk management is coordinated in close cooperation with the board of directors, and focuses on actively securing the Group's short to medium-term cash flows.

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 9).

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

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

At the year end none of the Group's financial assets are secured by collateral or other credit enhancements.

24.2 Foreign currency risk

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

The Group does not enter into forward exchange contracts to mitigate the exposure to foreign currency risk as the Group's currency transactions are not considered significant enough to warrant this. However the Group does seek to maintain the same level of working capital in both its Canadian Subsidiary and in the UK parent, measured in calendar months.

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 is as follows:

	Consolidated year ended				
	31 May 2013			31 May 2012	
	CAD$	**US $**	**€uro**	**US $**	**€uro**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Assets	169	2,758	25	8	12

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

Foreign Currency Sensitivity analysis

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

	Consolidated year ended	
	May	**May**
	2013	**2012**
	£'000	**£'000**
Effect of a 5% change in relevant exchange rate on:		
Income Statement	100	32
Equity	105	32

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 seek external funding or the need for securing finance from its shareholder base.

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

	Current			Non-Current
	Within 6 months	**Between 6 and 12 months**	**Between 1 and 5 years**	**Later than 5 years**
	£'000	**£'000**	**£'000**	**£'000**
As at 31 May 2013				
Trade and other payables	564	479	79	-
As at 31 May 2012				
Trade and other payables	164	282	139	-

The convertible loan notes have no contractual redemption rights.

Financial assets used for managing liquidity risk

Cash flows 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 one year.

24.4. Interest rate sensitivity

The Convertible loan carries a fixed rate of 8% per annum. The Group has no other borrowings through which it is subject to interest rate risk.

The risk associated with interest earned on cash balances is low given low level of interest currently being earned worldwide.

25. Capital management policies and procedures

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

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the strategic plans of the business over a rolling three year forecast. In order to maintain or adjust the capital structure and provide funds to support the planned growth, the Group may issue new shares or raise other funds through debt. The Group undertook a public listing on AIM in July 2013 to meet this objective.

At each balance sheet date the Group had no borrowings except for the convertible loan note. The Group is not subject to externally imposed capital requirements.

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

	Consolidated year ended	
	31 May 2013	**31 May 2012**
	£'000	**£'000**
Total equity	8,395	6,763
Convertible Loan	1,129	-
Less cash and cash equivalent	(7,155)	(1,686)
	2,369	5,077

Key financial risks

The principal financial risks are those of liquidity and currency.

Liquidity risk is considered in respect of projected revenues from self published titles being slower to materialise than expected, particularly in respect to *Elite: Dangerous*. The successful crowd-funding campaign and post year IPO raise and revolving credit facility have significantly mitigated these risks.

As the Group expands its revenue sources the amount of revenue originating in non sterling currencies will increase. The cost base of the Canadian operation is also likely to become material. The company currently holds contracts in US$ which is seen as a natural hedge for the Canadian operational costs over the next 2 years. The currency exposure is monitored closely.