Keywords Studios PLC - KWS Final Results
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Keywords Studios plc ("Keywords Studios", "the Group")

Full year results for the year to 31 December 2016

Keywords Studios, the international technical services provider to the global video games industry, today provides its full year results for the year to 31 December 2016.

Financial overview:

- Group revenue (including effect of acquisitions) increased by 67% to €96.6m (2015: €58.0m)
- Gross margin further improved to 38.0% (2015: 37.6%)
- Adjusted profit before tax* increased by 86% to €14.9m (2015: €8.0m)
- Adjusted basic earnings per share* up by 61% to 20.59c (2015: 12.81c)
- Net cash flow from operating activities of €15.0m (2015: €3.4m)
- Net cash** of €8.7m (2015: €17.3m)
- 10% increase in dividend to 1.33p per share (2015: 1.21p)

**before acquisition and integration expenses of €1.3m (2015: €1.1m), share option charges of €0.7m (2015: €0.4m), amortisation of intangibles of €1.6m (2015: €0.9m), and foreign currency loss of €1.7m (2015: loss of €0.5m)*

***after payment of €21.1m net cash consideration for acquisitions (2015: €7.4m) and €1.3m of acquisition costs and integration expenses (2015: €1.1m), and including €8.4m of bank borrowings.*

Operational overview:

- 24% increase in like for like*** revenue includes very strong performance by Synthesis
- Eight acquisitions completed in the year as we continue to invest in the development of the Group:
  - Acquisition of customer support business, Ankama, in March
  - Acquisition of Beijing-based art creation business, Mindwalk, in May
  - Localisation, audio and localisation testing business, Synthesis, acquired in April
  - Acquired the 50% of Kite Team it did not already own in April
  - Acquisition of Quebec City-based concept art specialist, Volta, in July
  - Acquisition of consulting and user testing business, Player Research, in October
  - Acquired functional and localisation testing business in Montreal and St-Jerome, Enzyme, in November
  - Acquisition of Madrid-based audio and localisation services firm, Sonox Audio, completed in December
- 25% increase in clients using three or more services from 51 to 64****

*** *calculated on the basis of revenues being included for 2016 acquisitions from the date of acquisition and for the equivalent period in the prior year.*
**** *measured on a rolling 12-month basis, comparing 12 months ended December 2016 to the 12 months ended December 2015.*

Post period end / current trading:

- Trading in the first two months of the year has been in line with the Board's expectations
- Terms agreed for a revolving credit facility of up to €35m with Barclays Bank, which will provide further headroom for selective acquisitions
- Continue to selectively review a strong acquisition pipeline
  - Acquisition of London-based Art creation agency, SPOV, providing services including; cinematics, UI, visual effects and motion graphics in February 2017

Andrew Day, Chief Executive of Keywords Studios, commented:

"2016 saw Keywords continue to grow strongly, both organically and through acquisitions which increased our capacity and scale in existing service lines and expanded our service capabilities and geographical reach.

"This performance has seen the Group grow from full year revenues of just over €14m prior to its IPO in July 2013, derived from four service lines and five studios across three continents, to revenues of nearly €100m derived from six service lines and 27 studios across four continents at the end of 2016.

"We fully expect to make continued good progress during 2017 as we take advantage of the synergies afforded by our enlarged platform and as we make further selective acquisitions, with the support of our strong cash generation and enlarged debt facilities."

A presentation of the full year results will be made to analysts later this morning at MHP's offices. To register to attend, please contact Nessyah Hart at MHP Communications on 020 3128 8156.

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Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) prior to its release as part of this announcement.

Notes to Editors

Keywords Studios is an international technical services provider to the global video games industry. Established in 1998, and now with facilities in Dublin, Rio de Janeiro, Montreal, Quebec City, Portland, Mexico City, Los Angeles, Seattle, Tokyo, Singapore, New Delhi, Pune, Rome, Milan, Barcelona, Madrid, Taipei, Shanghai, Beijing, Manila, Hamburg, Paris and London, it provides integrated art creation, localisation, testing, audio and customer care services across 50 languages and 14 games platforms to a blue chip client base in more than 15 countries. It has a strong market position, providing services to 21 of the top 25 most prominent games companies, including Activision Blizzard, Bandai Namco, Bethesda, Electronic Arts, Konami, Riot Games, Sony, Square Enix, Supercell, TakeTwo, and Ubisoft. Recent titles worked on include Uncharted 4: A Thief's End, Call of Duty: Infinite Warfare, Mortal Combat X, Assassin's Creed Syndicate, Battlefield 1, World of Warcraft: Legion, Hearthstone, Clash Royale, and Mobile Strike. Keywords is listed on AIM, the London Stock Exchange regulated market (KWS.L).
www.keywordsstudios.com

Chairman's Statement

Keywords performed ahead of previous expectations in 2016 as a result of another year of strong organic and acquisitive growth which has seen the Group grow from full year revenues of just over €14m, derived from four service lines and five studios across three continents prior to the IPO in July 2013, to revenues of nearly €100m derived from six service lines and 27 studios across four continents at the end of 2016.

The Group's successful expansion is testimony not just to the dynamic and innovative nature of the Keywords business model but, perhaps more importantly, to the disciplined and effective execution of the Company's strategy by our CEO, Andrew Day, and his expanded executive team. It is rare for a company to exceed the ambitious strategic expectations set out at the time of its flotation but Keywords has achieved that feat in terms of both organic and acquisitive growth.

During 2016, the Group delivered further strong revenue growth reflecting the contributions of the eight acquisitions completed during the year as well as continued strong like for like revenue growth, whilst also maintaining operating margins.

The acquisitions the Group has made since the beginning of 2016 have expanded our art creation, audio, localisation, functional and localisation testing offerings; added new capabilities including player experience analysis and design, focus group testing, animation and cinematics for both the video game and film markets; and given the Group solid operating bases in China and the Philippines.

This continued strong profitable growth reflects Keywords' resilience to global upheavals, such as Brexit, as its key drivers remain the growth of the global video games market and its ability to increase its share of video games companies' spend on services that are fundamental to their customers' experiences. Increases in the penetration of smart phones and other mobile devices and in consumer spend on video games continue unabated, supporting strong demand for Keywords as the leading international creative and technical services platform for the industry. In addition, Keywords' recent early steps to take a more influential position in technology and player experience consulting through the acquisition of Player Research, provides the Group with the opportunity to become ever more embedded in how the world of electronic gaming evolves. This is, genuinely, an exciting development.

Managing and funding growth

Managing growth successfully requires a balance between nurturing entrepreneurialism and innovation whilst providing a strong technology, financial and operational infrastructure. Progress has been made during 2016 to improve the Group's technology infrastructure and select the systems (for finance and operations) that will be robust and scalable enough to support the Group to multiply in size over the next few years. To that end we have recently appointed new Group Finance and IT directors, both resident in Dublin, the Group's operational head office, in addition to strengthening the operational management team over recent years as a result of the strong managerial talent that acquisitions have brought into the business.

In May 2016, we secured a five year revolving credit facility of up to €15m with Barclays Bank Plc to provide funds for both the Group's working capital and acquisition financing as it continues to grow, and since the period end and in keeping with the growth in the business we have agreed terms on an enlarged facility of up to €35m, which gives us further headroom for selective acquisitions.

Culture of quality and people

Keywords has established itself as the "go to" provider of creative and technical services for electronic games. This is not just a function of the team; average number of employees having grown from 1,273 to 1,818 people over the last year; the Keywords studios must deliver consistently good quality service in everything we do to a demanding set of customers against tight deadlines. The Group's track record shows a high level of customer satisfaction, which is testament to the Keywords culture, where the customer always comes first, and the skill and commitment of Keywords' operatives. The cultural tone, set by the top team at Keywords, is radiated throughout the studios and is shared by all businesses that join the Group. There is a real sense at our annual Strategy Conferences that Keywords will continue to consolidate its market leadership. On behalf of the Board and shareholders I'd like to thank everyone involved for their individual contributions both last year and for the future.

Shareholders and dividend

In line with its progressive dividend policy, and allowing for the need to retain resources to fund future growth of the Group's business and its strategic aims, the Board is pleased to recommend a final dividend of 0.89p per share which, following the interim dividend payment of 0.44p per share, will make the total dividend for the year ending December 31, 2016 1.33p per share, an increase of 10% on 2015. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on June 23rd, 2017 to all shareholders on the register at June 2nd, 2017 and the shares will trade ex-dividend on June 1st, 2017.

Current trading and outlook

Trading in the first two months of the year has been in line with the Board's expectations. With the benefit of an expanded and more diversified business, and a strong market and financial position in a growing yet still fragmented industry, we are confident that we can continue to make strong progress in line with our organic and acquisitive growth strategy and, at this early stage, maintain our current expectations for 2017.

Looking longer term, we maintain a watching brief on the medium to long term potential for the Group in closely adjacent markets such as e-learning, film and television, and other content rich sectors where our expertise in the most interactive form of content, video games, is highly relevant and transferable.

Ross Graham

Chairman
4 April 2017

Chief Executive's Review

Strong growth complemented by acquisitions

2016 saw Keywords continue to grow strongly, both organically and through acquisitions, which increased our capacity and scale in existing service lines and expanded our service capabilities and geographical reach. The eight acquisitions completed in 2016 are in line with the Group's strategy to lead the consolidation of the industry to become the "go to" global service delivery platform for the video games industry. They comprised: Synthesis, which positioned Keywords as the global leader in localisation and voice-over recording; Volta and Mindwalk Studios which reinforced the Group's strong art creation offering; Player Research which added new capabilities in player experience analysis and design; Enzyme Testing Labs which brought focus group testing services to the Group as well as increased scale to both functional and localization testing; Sonox which strengthened the Group's Audio services in the Spanish and Latin American markets; and Ankama Asia, which added a presence in the Philippines. The Group also acquired the 50% of Kite Team it did not already own during the year.

All acquisitions have or are being integrated into the Group by service line and by geographic region. The global management structure, which provides for globally managed service lines supported by strong regional, country and studio management, was implemented in mid-2015 and has been instrumental in providing the management focus and capacity to execute the acquisition strategy and drive the operational performance of and synergies within the business.

The Group finished the year with 27 operating locations around the world, compared with 17 at the beginning of 2016, giving it further geographical diversification across its revenues. Of its €96.6m revenues in 2016, 48% were denominated in USD, 35% in Euros, just 3% were denominated in Sterling, with the remainder being a mix of Japanese Yen, Canadian Dollars and others, meaning the Group has been largely unaffected by the UK's decision to withdraw from the EU.

Results Overview

Including the effect of acquisitions, the Group's revenues increased by 67% to €96.6m (2015: €58.0m) during the period, reflecting growth across all lines of business as outlined in the Operational Review below.

Using a like-for-like measure of organic revenue growth in the businesses that Keywords now owns, which provides a 2015 comparative as if all of the 2016 acquisitions had been owned for the same period in 2015 as they have been in 2016, organic growth was 24% in 2016 (20% in 2015). This like-for-like growth is a key focus and was driven primarily by our Localisation and Audio Service lines, both of which benefitted additionally from the very strong performance of Synthesis, acquired in April, and by Art, Customer Support, and Functional testing which all grew well, while Localisation Testing posted like for like growth of 8%.

Gross profit margins increased to 38.0% (2015: 37.6%) reflecting a combination of the Group's revenue mix and continued good margin management.

Adjusted profit before tax (before share option charges, amortisation of intangible assets, costs of acquisition and integration, and foreign currency movements) increased by 86% to €14.9m in 2016 (2015: €8.0m). Statutory profit before tax for the period was €9.5m (2015: €5.2m).

The Group's effective tax rate has decreased as we make better use of our brands, operating models and tools from our Dublin operational headquarters in support of our business around the world, much of which is in higher tax rate jurisdictions including Canada, the US, Japan, India and Italy. The Group's effective tax rate based on Keywords Studios' measure of profit before taxation in the period (as set out in the financial overview below) was 21.7% (2015: 22.9%).

Adjusted basic earnings per share for the year (before one-time costs of acquisitions and integration, share option charges, amortisation of intangibles, and foreign exchange movements), increased to 20.59c compared with 12.81c for 2015. After these items, the basic earnings per share from continuing operations was 11.22c (2015: 6.98c).

The group delivered strong operating cash flow in the year of €15.0m, with the benefit of €1.6m of multimedia tax credit ("MMTC") payments from 2013 and 2014, up from €3.4m in 2015. Following the investment of €21.1m net cash consideration for the eight acquisitions completed in 2016, the Group had €17m in cash at the year end, having utilised €8m of its €15m revolving credit facility, giving a net cash position of €8.7m.

Since the year end, terms have been agreed to replace our existing €15m facility with a revolving credit facility of €35m for an initial 3 year term, with the opportunity to extend by a further 2 years. This new facility is on very similar terms to the existing arrangement and gives us additional headroom to support our acquisition strategy.

Operational Review

In contrast to 2014 and 2015, during which we added Customer Support and Art, 2016 was focussed on adding capabilities, geographies and scale to, and deriving synergies from, our existing six service lines. Whilst there is plenty more to do, we were pleased to have made some good progress in achieving synergies across the Group, with teams increasingly combining the Group's services, resources and dual-shore delivery effectively to meet clients' needs. This is reflected in a 25% increase in the number of clients using 3 or more of the Group services to 51 from 64 during the year.

Art Creation (17% of Group revenues in the year)

Art creation services revenue grew 102% to €16.6m (2015: €8.2m) reflecting underlying growth particularly at Lakshya Digital and post-acquisition contributions from both Mindwalk and Volta acquired in June and October respectively. On a like-for-like basis, Art grew by approximately 34% year on year, reflecting strong market demand in the second half of the year, particularly in our Asian studios. We finished the year with 650 artists on our payroll of which 600 are in India and China. Through Liquid Development and Volta, we manage further pools of freelance artists numbering about 200 in total. This talent base makes Keywords one of the largest art services businesses in the highly fragmented global video games market.

We continue to see excellent synergistic benefits between our concept art studio, Volta, which operates at the earliest stages of the game production lifecycle and our other studios which operate further downstream in the production of art assets for final incorporation into the games. Furthermore, all studios are working with each other to leverage their respective capacities, and capabilities, to deliver top quality work to their global client base.

The objective for our Art Creation services line is to grow capacity to meet demand, whilst maintaining our reputation for quality and reliability of delivery to our customers' timescales. In addition, we aim to extend our capabilities in areas such as visual special effects, user interface design, cinematics and motion graphics, which we have started to do with the acquisition of Spov after the year end.

Audio (18% of Group revenue for the year)

Our Audio business increased revenues by approximately 140% to €17.3m (2015: €7.2m) including contributions from Synthesis and Sonox which were acquired in April and December respectively. On a like-for-like basis, revenues in our Audio service line grew by approximately 20%.

During the year, we strengthened the management of our Mexican audio studio; consolidated Synthesis Iberia, Kite Team and Sonox under Kite Team in Madrid; completed the earn out of Liquid Violet in London; and, this year, we are opening an audio recording studio in Tokyo, Japan.

The current, well-documented strike of video game voice actors in Los Angeles, which started in October, has had little direct effect on our audio business as it is focussed more on multi language "dubbing" rather than original language, US English recording.

Localisation (33% of Group revenue in the year)

Our Localisation activities, including contributions from Synthesis and Sonox which were acquired in the year, increased revenues by approximately 89%, to €32.3m (2015: €17.1m), and continued its excellent record of growth with a like for like increase of 33%.

Operating from 17 studios, our localisation business employed 85 project managers and 70 language specialists and editors and managed a network of approximately 1,000 games specialised translators in-territory around the world, giving it the scale to respond flexibly to client's needs to translate into multiple territories simultaneously. The business translated around 210m words during the year.

Our Localisation service line continued to benefit from the trend towards 'games as a service' which necessitates fresh content being added to the game on a frequent basis to expand the game worlds and keep players engaged. We are the leading localisation provider for video games and enjoy a strong position in the fast-growing mobile games segment of the market, where content additions to the many leading games that we support result in continuous localisation work for the Group in as many as 30 languages.

Functional Testing (9% of Group revenue for the year)

Our Functional Testing services grew by 33% to €8.6m (2015: €6.5m), including a six-week contribution from Enzyme which was acquired in November 2016, and grew by 23% on a like-for-like basis.

Staff utilisation remains a strong point for this service line which needs to react flexibly to changes in game production schedules with last minute alterations in testing team composition required. The ability to combine large, multi-month testing projects and small projects of a few days' duration while keeping non-billable time to a minimum is greatly enhanced by scale and we expect to see continued improvement in this as we integrate the functional testing activities of Enzyme in 2017.

In October we acquired Player Research, a Brighton, UK based business that provides user testing and consultancy services to game developers and publishers to help them optimise their games for increased player retention and monetisation. Although Player Research's business spans many of our service lines we have chosen to report its results within Functional Testing due to the play testing element of its service offering which has natural synergies with this service line.

Localisation Testing (17% of Group revenue in the year)

Our Localisation Testing operations grew by 8% on both absolute and like-for-like bases to €16.2m (2015: €15.0m). The acquisition of Synthesis in April 2016 and Enzyme in November 2016 added acquired revenues to this service line for the first time since the acquisition of Babel Media in February 2014. Integration of both businesses is progressing well.

With secure localisation testing studios in Montreal, Dublin, Milan, Singapore and Tokyo we believe this service line is the largest provider of localisation testing in the video games market. We look forward to continuing to serve our clients around the world while optimising our production efficiency, assisted by our increased scale, and developing our talent pool of games passionate professionals of over 30 different nationalities.

Customer Support (6% of Group revenue for the year)

Revenues for this service line grew by 44% to €5.6m (2015: €3.9m). On a like-for-like basis, the business grew 17% to account for 6% of total revenues.

Our Customer Support and Community Management business commenced in January 2015 with the acquisition of Alchemic Dream. Originally using a network of multi lingual agents working remotely but connected through a technology platform, this business has developed another operating model using teams of agents, employed and housed in our studios in Montreal, Dublin and Tokyo, often including teams which, having been involved with testing, already have a deep knowledge of the games. Since acquiring a Manila, Philippines, based customer support operation from one of our clients, Ankama, in March 2016, this English only operation has been expanded from 23 people to close to 120 as further clients have been added to this studio.

Whilst our Customer Support service line remains a relatively small part of the Group, we believe our specialist teams offer an attractive alternative to existing large customer support call centres. Our customers, as ever, are highly focussed on keeping gamers in their games for longer. We believe our model of using teams with deep knowledge of the games provides improved user satisfaction and will enable us to grow our share of this market over time.

Delivering Our Strategy

We have made strong progress in delivering on our strategy to grow Keywords Studios both organically and by acquisition to extend the Group's client base, service lines and geographical penetration. This allows the Group to use its existing expertise, multi-service platform, scale and global reach to generate synergies in a highly fragmented games services industry. We have not only expanded our Art Creation, Audio, Localisation, Functional and Localisation Testing service lines but we have also added new capabilities including in player experience analysis and design, focus group testing, animation and cinematics for both the video game and film markets. In addition, we have established significant operations in China and the Philippines.

As a more diversified, better balanced business with an expanded range of services and locations to offer our clients, we see many opportunities to extend our existing relationships with major games companies both through providing additional services to existing customers and through providing dedicated outsourced services. We have made good progress in this regard with a significant increase in the number of our clients buying multiple services from the Group.

People

The Group employed an average 1,818 people in 2016 (2015: 1,273). This talent pool is a particular strength of our Group as it provides a broad and deep pool of high quality expertise that our clients can use at the appropriate time to help them get their products and services to market with a flexible, cost efficient and trusted partner.

For our staff, the Group offers a welcoming home amongst other games passionate colleagues, in which the games come to them. Working on around 150 games at any time in the year and around more than 500 in total throughout the year, Keywords provides an excellent and sustainable variety of work, good career advancement opportunities and, increasingly, opportunities to work in many different locations. We are proud to serve as a stepping stone for those that go on to make their careers in games production and publishing and are fortunate to have an excellent alumni of Keywordians employed by many of our client companies.

Our acquisition programme also brings fresh talent to the Group at all levels and we have been successful at integrating our businesses including providing opportunities for staff to move between our various studios. This is reflected in our senior leadership team, which comprises four people from the original Keywords business, three from Binari Sonori, one from Lakshya, one from Babel Media, one from Liquid Development as well as four externally hired employees.

Current market trends

2016 saw the first of what many believe will be a number of refreshes of the PlayStation® and Xbox consoles with the launch of the PS4 Pro and the Xbox One S as well as the launches of various first generation, virtual reality hardware devices including Facebook's Oculus Rift, Valve/HTC's Vive, Sony's PS VR and Samsung's Gear VR. While the VR hardware did not sell as well at launch as some analysts were expecting, and we have not assumed stronger demand for our services in this area in 2017 compared to 2016, the backing of large groups such as Facebook, Google, Sony and others supports the potential for the continued development of the hardware and applications that will lead to mass adoption over time. Overall, we expect VR to be just one factor in the continued growth in content over time.

January 2017 saw the launch of Nintendo's Switch which we hope will establish itself as a major platform along with PS4 and Xbox One, leading to additional services work for Keywords as we support the content destined for this exciting new platform.

Outlook

After a strong finish to 2016 in which we saw record activity in some of our studios including our largest, Montreal, the Group's performance in the first two months of the current financial year has been positive and in line with the Board's expectations.

High demand for our art outsourcing services, particularly at Lakshya in India and Mindwalk in China, has returned in the second half of 2016 and into 2017. Collaboration between all four of our art studios is going well and in many cases, clients are requesting that we work across a number of our studios to configure services that meet their needs in terms of specific capabilities as well as scale. Our unique ability to blend services delivered to clients from near shore studios in the US or Canada combined with lower cost production in India and China is working well and we remain confident of good growth from this service line during 2017. The addition in February this year of Spov with its focus on highly creative motion graphics and cinematics for video games and for film further extends our capabilities and capacity and we expect this expansion to lead to further increases in demand for Keywords Art services.

Each service line is pursuing a growth strategy formulated for its own market opportunity, with some including a larger acquisition component than others and with the aim of a good balance between all 6 service lines over time. The synergies available to us across the Group, from sharing access to our talented people and production facilities, to leveraging our established client relationships, global sales force and marketing spend across all service lines, provide us with a solid platform for continued organic and acquisition led growth.

We fully expect to make continued good progress during 2017 as we take advantage of the synergies afforded by our enlarged platform and as we make further selective acquisitions, with the support of our strong cash generation and increased debt facilities.

Andrew Day

Group Chief Executive Officer

4 April 2017

Financial Review

Group Performance

2016 has seen the Group deliver another year of good organic growth, substantially complemented by acquisitions which have further extended its service offering, market penetration and geographic reach.

During the year, we have continued to invest in the business having expanded our customer support offering with the acquisition of a Philippines-based team from Ankama; consolidated our Spanish and Latin American presence by acquiring both the remaining 50% of audio and localisation firm, Kite Team and Madrid based Sonox Audio; established the group as the global leader in localisation and voice-over recording through the acquisition of Synthesis; and acquired China-based firm, Mindwalk as well as Quebec City-based, Volta which significantly enlarged the scale of our art services business line.

We have also made good progress integrating prior period acquisitions, all of which are making good contributions to the Group. We have continued to invest in our management structure in order to support future growth, with the appointment of senior managers to lead our art services and strategic outsourcing offerings as well as a Group IT Director.

Keywords' geographic reach continued to increase through acquisitions in St.Jerome, Quebec City, Taipei, Brighton, and Manila.

Revenue

Revenue for 2016 was up 67% at €96.6m (2015: €58.0m) due to both organic growth and acquisitions. The like for like revenue growth rate, which provides a 2015 comparative as if all of the 2016 acquisitions had been owned for the same period in 2015 as they have been in 2016, was 24% for the year which was up from 20% in 2015 and demonstrates the strong momentum the studios have managed to maintain throughout the year.

Revenue Mix

Revenues increased across all lines of business in 2016, resulting in our six service lines accounting for the following proportion of Group Sales in the year:

	Year ended 31 December 2016 %	**Year ended 31 December 2015 %**	**Proforma* for the year ended 31 December 2016 %**
Functional Testing	8.9	11.2	13.2
Localisation Testing	16.8	25.9	15.8
Localisation	33.5	29.6	32.3
Audio	17.9	12.4	16.6
Customer Support	5.8	6.8	4.9
Art Creation	17.1	14.1	17.2
Total	**100**	**100**	**100**

**Pro forma includes the annualised sales of all acquisitions made in 2016 in order to give a better overview of the balance of the business as we head into 2017.*

The sales mix by region based on the Group's operational jurisdictions are as follows:-

	Year Ended 31 December 2016 %	Year Ended 31 December 2015 %
Europe	56	41
Asia	15	17
Americas	29	42
	100	100

Gross Margin

Gross profit for the year was €36.7m (2015: €21.8m). The gross margin percentage increased to 38.0% (2015: 37.6%).

Operating Profit ("EBITDA")

Adjusted EBITDA is a measure of operating profit used by the Board, which excludes depreciation, amortisation, share option expenses and one-time costs related to acquisitions. For 2016, adjusted EBITDA increased 78% to €16.7m, compared with €9.4m for 2015. As a percentage of revenue, adjusted EBITDA has increased from 16.2% to 17.3%, reflecting the improvement in the Group's gross margin partially offset by an increase in operating expenses as described below.

Operating Profit and Adjusted Profit Before tax for Year Ended 31 December 2016

	Year Ended 2016 €'000s	Year Ended 2015 €'000s
Statutory profit before tax	9,435	5,086
Add back costs excluded from Group's measure of PBT*	5,368	2,812
Add back loss attributable to non-controlling interest	61	109
KWS measured Profit before tax	14,864	8,007
Add back Depreciation and Interest	1,861	1,355
Earnings before Interest, tax, depreciation and amortisation	16,725	9,362

**acquisition and integration expenses of €1.3m (2015: €1.1m), share option charges of €0.7m (2015: €0.4m), amortisation of intangibles of €1.6m (2015: €0.9m), and foreign currency loss of €1.7m (2015: loss of €0.5m).*

Operating expenses excluding depreciation, increased by €7.5m to €19.8m (2015: €12.3m) mainly as a result of the new acquisitions made during the year. The continued additional investment in strengthening Keywords management to successfully manage the growth of the Group also contributed. However, the continued drive on achieving synergies across the Group helped these costs decrease from 21.3% to 20.5% of revenue, with teams increasingly combining the Group's services and resources effectively to meet clients' needs. We expect the operating costs as a percentage of revenue to trend towards 20% as we manage additional volume from organic and acquisition led growth within the established framework of the Group.

Net Finance Costs

During 2016 there was a net finance cost of €2.0m compared to a cost of €0.7m in 2015 primarily due to the impact of foreign exchange losses. Foreign exchange losses of €1.7m (2015: loss of €0.5m) were in large part due to exchange rates losses on cash deposits resulting from the £10.5m Placing in November 2015 and inter-company loans. The increase in interest expense to €0.2m (2015: €0.1m) is largely due to a secured credit facility with Barclays of up to €15m over a five-year period of which €8m was drawn down at the year end.

Adjusted Profit before Tax

Adjusted Profit before Tax is used by the Board to measure the more meaningful underlying profit generation of the Group. This measure excludes one-time expenses, such as acquisition and integration costs, share option expenses, foreign currency gains or losses and amortisation of intangibles. Adjusted profit before tax for 2016 increased by 86% to €14.9m compared with €8.0m in 2015.

Taxation

The Group's effective tax rate reduced to 21.7% (2015: 22.9%) as the Group looked to charge more services from Ireland in the year. This will continue during the next year and we would anticipate a further slight reduction in the effective tax rate.

Basic Earnings per share

Basic earnings per share for the year, before one-time costs of acquisitions and integration, share option charges, amortisation of intangibles, and foreign exchange movements, increased by 61% to 20.59c compared with 12.81c for 2015. Basic earnings per share based on the statutory profit after tax was 11.22c (2015: 6.98c).

Cash flow and debt

The Group generated operating cash flow of €15m for the year, up from €3.4m in 2015, with the benefit of €1.6m of MMTC payments from 2013 and 2014. During the year the Group also accumulated MMTCs in Quebec of €2.8m (2015: €1.3m). Previous delays in receiving the multimedia tax credits were not encountered in 2016 and this significantly improved the cash collection levels year on year. The total multimedia tax credit accrual amounted to €2.9m as at December 31, 2016 (2015: €3.9m).

The Group made eight acquisitions to strengthen the business during the year with a net cash outflow on consideration payments of €21.1m, and an additional €1.3m in acquisition and integration expenses.

Investment in fixed assets amounted to €2.3m (2015: €1.6m) reflecting the cost of increasing the capacity of the Montreal studio, improvements to both the Dublin and Manila studios and investment in the Art service line for both Lakshya Digital and Mindwalk. Additionally, there were ongoing purchases of games testing equipment.

Cash and cash equivalents decreased to €17.0m from €19.0m excluding accrued multimedia tax credits of €2.9m (2015: €3.9m). The loans and borrowings were €8.4m at 31 December 2016 (2015: €1.7m)

Foreign Exchange

Keywords does not hedge foreign currency profit and loss translation exposures. The effect on the Group's results of movements in exchange rates and the foreign gains and losses incurred during the year, which mainly relate to cash deposits resulting from the £10.5m Placing in November 2015 and inter-company loans, are set out in the net finance costs section above.

Dividend

The Company has a progressive dividend policy, subject to the retention of funds needed to fund future growth of the Group's business and its strategic aims.

Following the interim dividend payment of 0.44p per share on 28th October, 2016, the Board has recommended a final dividend of 0.89p per share, which will make the total dividend for the year ending December 31st, 2016 1.33p per share, a 10% increase over 2015. Subject to shareholder approval at the Annual General meeting, the final dividend will be paid on June 23rd, 2017 to all shareholders on the register at June 2nd, 2017. The cash cost of the final proposed dividend will be an estimated €0.83m, subject to currency fluctuations.

Events after the reporting period

On February 17th, 2017 the Group acquired the entire share capital of Spov Ltd. ("Spov") for a total consideration of up to £1.16m in cash from its founder, Allen Leitch. Based in London, UK, Spov provides creative development, cinematics, UI, visual effects and motion graphics services to the video game and film markets.

The Group has agreed heads of terms on a revolving credit facility with Barclays for €35m for an initial 3 year term, with the opportunity to extend by a further 2 years. The new facility replaces the existing €15m facility and is on similar terms. This increased facility is in keeping with the growth of the Group and its financial performance and provides support for the Group's ongoing acquisition strategy.

Key performance Indicators

We monitor our financial performance against a number of different benchmarks. These are set in agreement with the Board and used to evaluate progress against our strategy.

Financial performance is measured by

- Revenue growth

  Revenue growth is measured by line of business and overall against the Board's strategic goal to grow organically and by acquisition.

- Gross profit

  Gross profit is a key measure of the Group's pricing strategies, use of resources and its ability to optimise resource utilisation.

- Overhead costs

  The Board monitors the overheads to ensure the costs of the Group are in line with the level of business being generated.

- Adjusted EBITDA margin

  The Board uses an adjusted measure of EBITDA to monitor the performance of the Group. This measure excludes foreign exchange gains or losses, any one-time expenses and the cost of employee share option awards.

- Adjusted operating profit margin

  The Board also uses an adjusted measure of operating profit to monitor the performance of the Group. This measure similarly excludes foreign exchange gains or losses, any one time expenses, and the cost of employee share option awards.

Non-financial performance is measured by

- Resource deployment

  The Board reviews the efficiency at which the Group is utilising its staff resources to ensure optimum staffing strategies are deployed and to maximise utilisation rates.

- Business won/lost

  The Board reviews the levels of new business won and lost, and monitors the reasons for both, to ensure that the services being offered to the market are appropriately priced and relevant.

- Customer satisfaction and quality of service delivery

  The Board monitors the quality and timeliness of service delivery on an ongoing basis and reviews the level of repeat revenue from existing customers, typically around 80%, as a key measure of customer satisfaction.

David Broderick

Chief Financial Officer

4 April 2017

Consolidated Statement of comprehensive income

	Note	**2016** **€'000**	**2015** **€'000**
Revenues	4	96,585	57,951
Operating costs		(62,196)	(37,460)
Multimedia tax credits		2,289	1,287
Net Operating Costs		(59,907)	(36,173)
Gross profit		36,678	21,778

Share option expense	20	(686)	(392)
Costs of acquisition and integration		(1,316)	(1,089)
Amortisation of intangible assets		(1,629)	(857)
Other administration expenses		(21,588)	(13,616)
Administrative expenses		(25,219)	(15,954)
Operating profit		11,459	5,824
Financing income	6	94	70
Financing cost	6	(2,118)	(808)
Profit before taxation		9,435	5,086
Tax expense	7	(3,223)	(1,832)
Profit from Operations		6,212	3,254
Other comprehensive income:			
Exchange gains on translation of foreign operations		489	763
Actuarial loss on defined benefit		(63)	
Total comprehensive income:		6,638	4,017
Profit for the period attributable to:			
Owners of the parent		6,273	3,363
Non-controlling interest		(61)	(109)
		6,212	3,254
Total comprehensive income attributable to:			
Owners of the parent		6,699	4,126
Non-controlling interest		(61)	(109)
		6,638	4,017
Earnings per share		Euro cent	Euro cent
Basic earnings per ordinary share (Euro cent)	9	11.22	6.98
Diluted earnings per ordinary share (Euro cent)	9	10.87	6.87

Consolidated Statement of financial position

		Years ended 31 December	
		2016	**2015**
	Note	**€'000**	**€'000**
Non-current assets			
Property, plant and equipment	14	5,498	3,486
Goodwill	12	46,799	23,893
Intangible assets	13	8,696	3,782
Deferred tax assets		880	971
		61,873	32,132
Current assets			
Trade receivables	15	13,879	7,519
Other receivables	16	7,778	8,320
Short-term investments	18	-	27
Cash and cash equivalents	17	17,020	19,018
		38,677	34,884
Total assets		**100,550**	**67,016**
Equity			
Share capital	19	654	646
Share capital - To Be Issued		8,792	-
Share premium		19,983	18,542
Merger reserve		22,109	22,109
Foreign exchange reserve		987	498
Treasury shares held in EBT		(1,434)	(804)
Share option reserve		1,305	619
Retained earnings		14,308	10,293
		66,704	51,903
Non-controlling interest		-	(1,309)
Total equity		66,704	50,594
Current Liabilities			
Trade payables		4,822	2,761
Other payables	21	12,431	7,862
Loans and Borrowings	23	8,025	1,163
Corporation tax liabilities		2,552	752

		27,830	12,538
Non-current liabilities			
Other payables	21	1,592	300
Employee Defined Benefit	22	826	590
Loans and Borrowings	23	345	571
Deferred tax liabilities	29	3,253	2,423
		6,016	3,884
Total equity and liabilities		**100,550**	**67,016**

Consolidated Statement of changes in equity

	Share capital	Shares to be issued	Share premium	Merger reserve	Foreign exchange reserve	Treasury shares held in EBT	Share option reserve	Retained earnings	Total attributable to equity holders of parent	Non Controlling Interest	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2015	**551**	**-**	**18,542**	**5,297**	**(265)**	**-**	**227**	**7,667**	**32,019**	**-**	**32,019**
Profit for the period	-	-	-	-	-	-	-	3,363	3,363	(109)	3,254
Other comprehensive income	-	-	-	-	763	-	-	-	763	-	763
Total comprehensive income for the year	-	-	-	-	763	-	-	3,363	4,126	(109)	4,017
Contributions by and contributions to the owners:											
Share option expense (note 19)	-	-	-	-	-	-	392	-	392	-	392
Dividends paid (note 10)	-	-	-	-	-	-	-	(737)	(737)	-	(737)
Shares bought for EBT	-	-	-	-	-	(804)	-	-	(804)	-	(804)
Shares issued for cash	78	-	-	14,118	-	-	-	-	14,196	-	14,196
Shares issued upon acquisitions	17	-	-	2,694	-	-	-	-	2,711	-	2,711
Liabilities on acquisition of Kite Team	-	-	-	-	-	-	-	-	-	(50)	(50)
Purchase of Put Option - remaining 50% Kite Team	-	-	-	-	-	-	-	-	-	(1,150)	(1,150)
						-					
Contributions by and contributions to the owners	95	-	-	16,812	-	(804)	392	(737)	15,758	(1,200)	14,558
Balance at 31 December 2015	**646**		**18,542**	**22,109**	**498**	**(804)**	**619**	**10,293**	**51,903**	**1,309**	**50,594**
Profit for the period								6,273	6,273	61	6,212
Other comprehensive income					489			(63)	426	-	426
Total comprehensive income for the year					489			6,210	6,699	61	6,638
Contributions by and contributions to the owners:											
Share option expense (note 19)	-	-	-	-	-	-	686	-	686	-	686
Share Options Exercised	-	-	-	-	-	(632)	-	-	(632)	-	(632)
Dividends paid (note 8)	-	-	-	-	-	-	-	(825)	(825)	-	(825)
Treasury shares ringfenced for EBT	-	-	-	-	-	2	-	-	2	-	2
Shares issued for cash - Numis Warrants(note 19)	5	-	643	-	-	-	-	-	648	-	648
Shares issued upon acquisition - Volta Creation Inc	1	-	169	-	-	-	-	-	170	-	170
Shares to be issued (Synthesis Acquisition)	-	6,906	-	-	-	-	-	-	6,906	-	6,906
Shares to be issued (Mindwalk Acquisition)	-	1,886	-	-	-	-	-	-	1,886	-	1,886
Elimination of Minority Interest in Kite Team	-	-	-	-	-	-	-	(1,370)	(1,370)	1,370	0
Shares Issued on settlement with Kite Team	1	-	149	-	-	-	-	-	150	-	150
Keywords France Incorporation	-	-	-	-	-	-	-	-	-	-	-
Shares issued upon acquisition - Player Research Ltd	1	-	331	-	-	-	-	-	332	-	332
Shares issued upon acquisition - Sonox Audio Solutions SL	-	-	149	-	-	-	-	-	149	-	149
						-					
Contributions by and contributions to the owners	8	8,792	1,441	-	-	(630)	686	(2,195)	8,102	1,370	9,472
Balance at 31 December 2016	**654**	**8,792**	**19,983**	**22,109**	**987**	**(1,434)**	**1,305**	**14,308**	**66,704**	**-**	**66,704**

Consolidated statement of cash flows

	Note	2016	2015
		Years ended 31 December	
		€'000	**€'000**
Cash flows from operating activities			
Profit/(loss) after tax		**6,212**	**3,254**
Income and expenses not affecting operating cash flows			
Depreciation		1,803	1,297
Intangibles amortisation		1,629	857
Income tax expense		3,223	1,832
Share option expense		686	392
Loss on disposal of fixed assets		-	20
Loss on payment of deferred consideration		264	194
Interest receivable		(94)	(70)
Actuarial Loss on Employee Benefit		63	
Share Issuance Expenses		-	14
Interest expense		152	128
Net Foreign Exchange Losses on investments		55	-
		7,781	**4,664**
Changes in operating assets and liabilities			
(Increase)/ Decrease in trade receivables		(3,788)	29
(Increase)/ Decrease in other receivables		3,245	(2,533)
Increase/ (Decrease) in trade and other payables		3,718	(646)
		3,175	**(3,150)**
Income taxes paid		(2,129)	(1,362)
Net cash provided by operating activities		**15,039**	**3,406**
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired		(19,109)	(7,409)
Acquisition of remaining 50% of Kite		(1,000)	-
Settlement of deferred liabilities on acquisitions		(995)	-
(Acquisition)/disposal of short term investments		27	232
Acquisition/disposal of property, plant and equipment		(2,306)	(1,635)
Interest received	6	94	70
EBT share purchase		2	(804)
Net cash used in investing activities		**(23,287)**	**(9,546)**
Cash flows from financing activities			
Repayment of loan to Directors of acquired company		-	(300)
Loan to finance Multi Media Tax Credits		(1,157)	1,110
Repayment of loans		(625)	-
Loan to finance acquisitions		8,000	-
Dividends paid	10	(825)	(737)
Share options exercised		(632)	
Shares issued		643	14,213
Share issuance expenses		-	(14)
Interest paid	6	(152)	(128)
Net cash used in financing activities		**5,252**	**14,144**
Decrease in cash and cash equivalents		(2,996)	8,004
Exchange gain/loss on cash and cash equivalents		998	-
Cash and cash equivalents at beginning of the period		19,018	11,014
Cash and cash equivalents at end of period		**17,020**	**19,018**

Adjustments to reconcile net income to net cash provided by operating activities

Notes forming part of the Consolidated Financial Statements

1 Basis of preparation

Keywords Studios plc (the "Company") is a company incorporated in the UK. The Group was formed on July 8, 2013 when Keywords Studios Plc (formerly Keywords Studios Limited) acquired the entire share capital of Keywords International Limited through the issue of 31,901,332 ordinary shares.

While the financial information included in the annual financial results announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as endorsed for use in the European Union (IFRSs), this announcement does not contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for Keywords Studios plc for the year ended 31 December 2015 have been delivered to the Registrar of Companies and statutory accounts for the year ended 31 December 2016 will be delivered following the Company's annual general meeting.

The auditors have reported on those accounts; their reports were unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports.

Their reports for the year end 31 December 2016 and 31 December 2015 did not contain statements under s498 (2) or (3) of the Companies Act 2006.

New standards, interpretations and amendments effective from 1 January 2016

There were no new standards or interpretations implemented by the group for the first time for periods beginning on or after 1 January 2016. None of the amendments to Standards that are effective from that date had a significant effect on the Group's financial statements.

New standards, interpretations and amendments not yet effective

There were no new standards or interpretations available for early adoption for the first time for periods beginning on or after 1 January 2016, which have been implemented by the Group.

On review of IFRS 15, *Revenue from Contracts with Customers,* the five key points to recognise revenue have been assessed;

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

On the basis of the contracts in place, the group do not envision a material change in reporting once IFRS 15 is implemented.

There are a number of operating leases across the group. In accordance with IFRS 16 *Leases*, their change in treatment in the financial statements from 1 January 2019 will impact the Statement of Financial Position, increasing both long term assets and liabilities.

The financial statements for 2016 have been prepared in thousands (€'000) and the comparative numbers have also been revised to the same format. In 2015 the financial statements were rounded to one (€). The financial statements are presented in Euro (€) which is the functional currency of the Group.

2 Significant accounting policies

Basis of Consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present; power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including;

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights,
- Substantive potential voting rights held by the company and by other parties,
- Other contractual arrangements, and
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are eliminated in full.

The acquisition of Keywords International Limited was deemed to be a 'combination under common control' as ultimate control before and after the acquisition was the same. As a result, these transactions were outside the scope of IFRS 3 "Business combinations" and have been accounted for under the principles of merger accounting as set out under UK GAAP from the date on which control is obtained until the date on which control ceases.

As part of the Group reconstruction in 2013, the Company issued 31,901,332 shares at a value of £1.23 each, being the flotation price, as part of a share for share exchange with the shareholders of Keywords International Limited. The £0.01 nominal value of the shares issues was accounted for in Issued Share Capital. On the 2013 consolidated balance sheet, the difference between the nominal value of shares issued by the company as consideration for the shares in Keywords International Limited, and the nominal value of the shares in Keywords International Limited was treated as a merger reserve arising on group reconstruction. On the Company balance sheet, the excess of net book value of the assets held by Keywords International Limited, at the date of the share for share exchange, over the nominal value of the shares issued was treated as a merger reserve.

Business Combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Consolidated Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained. They are deconsolidated until the date on which control ceases.

Any contingent consideration payable is recognised at fair value at the acquisition date and is split between current liabilities and long term liabilities depending on when it is due. At each balance sheet date the fair value of the contingent consideration will be revalued and any change will be recognised in the statements of comprehensive income.

For deferred consideration which is to be provided for by the issue of a fixed number of shares at a future defined date, where there is no obligation on Keywords to offer a variable number of shares, the deferred consideration is to be classified as an Equity Arrangement and the value of the shares is fixed at the date of the acquisition.

Goodwill

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2010, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2010, cost comprised the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date were treated as an adjustment to cost and, in consequence, resulted in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2010, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquiree plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, re-measured subsequently through profit or loss. For business combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

Intangible Assets

Intangible assets, separately identified from goodwill acquired as part of a business combination, are initially stated at fair value. The fair value attributed is determined by discounting the expected future cashflows to be generated from net margin on the business from the main customers taken on at acquisition. The assets are amortised over their useful economic lives, which is deemed to be 5 years.

Impairment

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGU's). Goodwill is allocated on initial recognition to each of the group's CGUs that are expected to benefit from a business combination that gives rise to the goodwill.

The Group has one CGU. This CGU represents the lowest level at which goodwill is monitored by the Group and the lowest level at which management captures information for internal management reporting purposes about the benefits of the goodwill. Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income. An impairment loss recognised for goodwill is not reversed.

Foreign Currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. The Functional currency for the Company is euro. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

On consolidation, the results of overseas operations are translated into euro at rates approximating to this ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognised in profit or loss in Group entities' separate financial statements on the translation of long-term items forming part of the Group's net investment in the overseas operation concerned are classified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Revenue Recognition

Revenue recognised represents the consideration received or receivable for the rendering of services, net of sales taxes, rebates discounts and after eliminating intercompany sales. Services are provided based on agreed client instructions and when projects are in progress at the period end, revenue is recognised to the extent that services
have been provided net of any provisions.

Revenue is recognised on the basis of words translated, studio time completed, testing hours finished, or milestones reached in art creation as a proportion of the estimate total to complete the projects, by the expected revenue accruing on completion.

MMTC Grants

The Multimedia tax credits received in Montreal on testing services are a credit against staff costs. Accordingly they are treated as a deduction against direct costs. The nature of the grants are such that they are not dependent on taxable profits.

Share Based Payments

The Company issues equity settled share-based payments to certain employees and Directors under a share options plan and a long term incentive plan ("LTIP").

The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Where share-based payments are issued to employees of subsidiary companies, the annual cost of the option is expensed in the subsidiary company, with a corresponding increase in capital contribution from the Company. This annual cost is recorded as an increase in the Company's cost of investment in that subsidiary.

Share Option Plan

These are measured at fair value, taking into account market vesting conditions but not non-market vesting conditions on the grant date using a Black-Scholes option pricing model which calculates the fair value of an option by using the vesting period, the expected volatility of the share price, the current share price, the exercise price and the risk free interest rate. The fair value of the option is amortised over the vesting period, with one third of the options vesting after two years, one third after three years, and the balance vest after four years. The only vesting condition is continuous service. There is no requirement to revalue the option at any subsequent date. The charge that is recognised is adjusted to reflect failure to vest due to non-achievement of a non-market vesting condition but not failure to vest due to the non-achievement of a market vesting condition.

LTIP

An alternative share plan was introduced to give awards to Directors and staff, subject to outperforming the Numis Small Cap (excluding Investment Trusts) index in terms of shareholder return over a three year period. There are three different award levels; one third of the share options vest if the company shall exceed the Total Shareholder Return of the Numis Small Cap Index by not less than 10%, two thirds if the shareholder return exceeds by over 20% and 100% of the share options if the shareholder return exceeds by over 30%.

These are measured at fair value, taking into account market vesting conditions but not non-market vesting conditions, at the date of grant, measured by using the Monte Carlo binomial model. The charge that is recognised is adjusted to reflect failure to vest due to non-achievement of a non-market vesting condition but not failure to vest due to the non-achievement of a market vesting condition.

Dividend Distribution

Final dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders. Interim dividends are recognised when paid.

Income Taxes and Deferred Taxation

Provision for income taxes is calculated in accordance with the tax legislations and applicable tax rates in force at the reporting date in the countries in which the Group companies have been incorporated.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- Different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Property, Plant and Equipment

Property, plant and equipment comprise computers, leasehold improvements, and office furniture and equipment, and are stated at cost less accumulated depreciation. Carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Property, plant and equipment acquired through business combinations are valued at fair value on the date of acquisition.

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Computers and Software	33.33
Office furniture and equipment	10.00
Building and leasehold improvements	over the length of the lease

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

Financial Assets

Loans and Receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Group's receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Trade receivables, which principally represent amounts due from customers, are initially recognised, thereafter, are recognised at amortised cost. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of receivables. Bad debts are written off when identified.

Cash and cash equivalents are necessary for the working capital requirements of the group. They include cash in hand, deposits held at call with banks and other short term highly liquid investments. Where cash is on deposit with maturity dates greater than three months, it is disclosed as short-term investments.

Share Capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

Financial Liabilities

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Leased Assets

Where substantially all of the risks and rewards of ownership are not transferred to the Group ("operating lease"), the total rental payables are charged to the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Finance Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Employee Benefit Trust

Ordinary Shares purchased by the Employee Benefit Trust on behalf of the Parent Company under the Terms of the Share Option Plan are deducted from equity on the face of the Consolidated Statement of Financial Income. No gain or loss is recognised in relation to the purchase, sale, issue or cancellation of the Parent Company's Ordinary Shares.

3 Critical accounting estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Directors to make estimates and judgements that effect the application of policies and reported amounts.

The areas requiring the use of estimates and critical judgements that may significantly impact the Group's earnings and financial position are revenue recognition in respect of accrued income and computation of income taxes. Estimates and judgements are continually evaluated and are based on historic experience and other factors including expectations of future events that are believed to be reasonable. Actual results may differ from these estimates and assumptions.

Income Taxes

The Group is subject to income tax in several jurisdictions and judgement may be required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination may be uncertain. As a result, the company recognises tax liabilities based on an understanding of taxation legislation in particular jurisdictions and any related estimates of whether taxes and/or interest will be due. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Goodwill and intangible assets arising on acquisition

The value of goodwill and intangible assets recognised on the Group's acquisitions during the year, were derived from the projected cashflows for those businesses at the time of acquisition, based on management forecasts. The accuracy of the valuation would therefore be compromised by any differences between the forecasts and the levels of business activity that the entity might actually have been able to generate in the absence of acquisition. The valuation will also be affected by the accuracy of the discount factor used.

The carrying value of goodwill and intangibles assets is dependent on the accuracy of the inputs into the impairment test detailed in note 12.

Multi Media Tax Credits

The submissions for the repayment of Multi-Media Tax Credits in Montreal are made on an annual basis to Investment Quebec and Revenue Quebec. Both the costs and basis of the claim are subject to audit by the authorities prior to approval and payment of the claim. While the group complete a detailed exercise in relation to the claim and to the accrual there may be occasions where the actuals amounts may be more or less than accrued which will lead to a change in the amounts recognised within the financial statements.

Employee Defined Retirement Benefit

In line with statutory requirements in Italy, the subsidiaries in Milan maintain Employee Defined Benefit schemes. On leaving the company, each employee is entitled to 1/13.5 of their final salary for each year of service.

At year end, the Group commissioned an actuarial valuation of the related liability, based on salaries, length of service and variables including employee turnover, estimated salary increases and cost of capital.

The liabilities at year end are recorded as long term. The actuarial loss is recorded separately as other comprehensive income.

4 Segmental analysis

Management considers that the Group's activity as a single source supplier of Services to the gaming industry constitutes one operating and reporting segment, as defined under IFRS 8.

Management review the performance of the Group by reference to Group-wide profit measures and the revenues derived from six main service groupings:

- Localisation Services- Localisation services relate to translation and cultural adaptation of in-game text and audio scripts across multiple game platforms and genres.
- Localisation Testing - Localisation Testing involves testing the linguistic correctness and cultural acceptability of computer games.
- Audio / Voiceover Services - Audio Services relate to the audio production process for computer games and includes script translation, actor selection and talent management through pre-production, audio direction, recording, and post-production, including native language Quality Assurance of the recordings.
- Functional Testing - Functional Testing relates to quality assurance services provided to game producers to ensure games function as required.
- Art Creation Services - Art creation services relate to the production of graphical art assets for inclusion in the video game including concept art creation along with 2D and 3D art asset production and animation.
- Customer Support - Customer support relates to the live operations support services such as community management, player support and associated services provided to producers of games to ensure that consumers have a positive user experience.

There is no allocation of operating expenses, profit measures, assets and liabilities to individual product groupings. Accordingly the disclosures below are provided on an group-wide basis.

Activities are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the executive management team made up of the Chief Executive Officer and the Finance Director.

	2016	**2015**
	€'000	**€'000**
Revenue by line of business		
Art creation	16,559	8,211
Audio	17,263	7,157
Localisation	32,360	17,141
Functional testing	8,619	6,472
Localisation testing	16,204	15,021
Customer support	5,580	3,949
	96,585	**57,951**

No single customer (2015: One) accounted for more than 10% of the Group's revenue during the year. Revenues generated from that customer in 2015 was €7.2m.

Geographical Analysis of Revenues by Jurisdiction

Analysis by geographical regions is made according to the Group's operational jurisdictions. This does not reflect the region of the Group's customers, whose locations are worldwide.

Geographical Analysis of Revenue by Jurisdiction

	2016	**2015**
	€'000	**€'000**
Ireland	25,570	14,167
Japan	4,886	3,324

Italy	7,269	8,343
Canada	22,053	17,438
United States	5,250	6,573
India	4,591	3,602
Singapore	4,787	3,083
United Kingdom	1,276	650
Brazil	619	465
Spain	2,167	306
Switzerland	17,838	-
Germany	163	-
Others	116	-
Total revenues	**96,585**	**57,951**

Geographical Analysis of Non-current Assets from Continuing Businesses

	2016	2015
	€'000	**€'000**
Ireland	4,779	284
Japan	43	32
Italy	12,188	8,984
Canada	8,937	1,981
United States	8,657	8,707
India	2,991	3,039
Singapore	60	83
United Kingdom	6,874	6,885
Brazil	259	204
Spain	1,475	867
Mexico	121	95
Switzerland	12,657	-
China	287	-
Germany	1,241	-
Philippines	424	-
	60,993	**31,161**

5 Operating Profit

Operating profit is stated after charging:	Years ended 31 December	
	2016	2015
	€'000	€'000
Depreciation	1,803	1,297
Amortisation of Intangible Assets	1,630	857
Costs of Acquisitions & Integration	1,316	1,089
Operating lease repayments	2,371	1,663

One-time costs of €1,316 were incurred in acquiring and integrating the new entities into the group. The most significant costs within the integration costs are for internal resource who have led the activities to integrate the new acquisitions into the Group, and legal costs in relation to acquisitions.

	2016	2015
	€'000	**€'000**
Auditors' remuneration		
Audit services		
Parent company and Group audit	115	48
Subsidiary companies audit	111	95
Non-audit services		
Accounting services		-
Taxation compliance	52	12

Due diligence services		-
	278	**155**

6 Financing income and costs

	2016	2015
	€'000	€'000
Finance income		
Interest received	94	70
	94	70
Finance cost		
Bank charges	(229)	(206)
Interest expense	(152)	(128)
Foreign exchange losses	(1,737)	(474)
	(2,118)	(808)
Net financing income/(cost)	**(2,024)**	**(738)**

7 Taxation

	2016	2015
	€'000	€'000
Current income tax		
Income tax on profits of parent company	4	4
Income tax on profits of subsidiaries	3,928	1,518
Deferred tax (Note 29)	(709)	310
	3,223	**1,832**

The tax charge for the year can be reconciled to accounting profit as follows:

	Years ended 31 December	
	2016	2015
	€'000	€'000
Profit before tax	**9,435**	**5,086**
Expected tax charge based on the standard rate of taxation in the UK at 20% (2015: 23%)	1,887	1,170
Higher rates of current income tax in overseas jurisdictions	1,331	286
Lower rates of current income tax in overseas jurisdictions	(555)	(100)
Losses incurred	998	238
Effects of other timing differences	(438)	238
Total tax charge	**3,223**	**1,832**

The Group's subsidiaries are located in different jurisdictions and are taxed on their residual profit in those jurisdictions.

9 Earnings per share

	2016	2015
	Euro cent	**Euro cent**
Basic	11.22	6.98
Diluted	10.87	6.87
	€'000	**€'000**
Profit for the period from continuing operations	6,273	3,363
Denominator (weighted average number of equity shares)	**Number**	**Number**

Basic	55,918,481	48,192,371
Diluted	57,716,435	48,971,278

The basic and diluted weighted average denominators include the impact of the 2,376,518 and 513,190 shares to be issued relating to the acquisitions of Synthesis and Mindwalk respectively.

The dilutive impact of share options has been considered in calculating diluted earnings per share. Details of the number of share options outstanding at the year-end are set out in note 20.

10 Dividends

	2016		2015	
	Per share € Cent	Total €'000	Per share € Cent	Total €'000
Final Dividends Paid	1.03	561	1.03	482
Interim Dividends Paid	0.49	264	0.54	255
Dividends paid to shareholders	**1.52**	**825**	**1.57**	**737**

In June 2015, Keywords Studios plc approved a dividend of Stg 0.74/€1.03 per share, based on the shares in issue at that time, or €482,333 in total, as a final dividend for 2014. The dividend was paid in June 2015.

In September 2015, Keywords Studios plc approved a dividend of Stg 0.40/€0.54 per share, based on the shares in issue at that time, or €254,934 in total, as an interim dividend for 2015. The dividend was paid in October 2015.

In May 2016, Keywords Studios plc approved a dividend in respect of the financial year ended 31 December 2015 of Stg0.81p/ €1.034 per Ordinary share, or €561,000 in total, as a final dividend for 2015. The dividend was paid in June 2016.

In September 2016, Keywords Studios plc approved a dividend of Stg 0.44/€0.49 per share, based on the shares in issue at that time, or €264,000 in total, as an interim dividend for 2016. The dividend was paid in October 2016.

The Directors' recommend a final dividend in respect of the financial year ended 31 December 2016 of Stg 0.89p per Ordinary share, to be paid on 23 June 2017 to shareholders who are on the register at 2 June 2017. This dividend is not reflected in these financial statements as it does not represent a liability at 31 December 2016. The final proposed dividend will reduce shareholders' funds by an estimated €556,801.

There are no income tax consequences for the company in respect of the dividends proposed prior to issuance of the Consolidated Financial Statements and for which a liability has not been recognised.

11 Staff Costs

Total staff costs (including Directors) comprise the following:

	Years ended 31 December	
	2016	2015
Group	€'000	€'000
Salaries and related costs	41,643	29,773
Share based payment costs	686	392
	42,329	**30,165**

Key management compensation:

	Years ended 31 December	
	2016	2015
	€'000	€'000
Salaries and related costs	769	719
Social Welfare cost	97	88
Pension costs	29	5
Share based payment costs	42	135
	937	**947**

The key management compensation includes compensation to six Directors of Keywords Studios plc during the year. (2015: five).

Group	2016	2015
Average number of employees		
Operations	1,886	1,169
General and administration	128	104
	2,014	**1,273**

12 Goodwill

Group

	Total €'000
Cost and net book value	
At 1 January 2015	14,711
Recognition on acquisition of subsidiaries	8,354
Revaluation on Exchange Rate movement	828
At 31 December 2015	23,893
Recognition on acquisition of subsidiaries	23,055
Revaluation on Exchange Rate movement	(149)
At 31 December 2016	46,799

During the period goodwill arose on the acquisitions of Ankama Service Centre in Philippines, Mindwalk, Synthesis, Volta, Player Research, GVGS trading as Enzyme and Sonox.

Key assumptions for the value in use calculations are as follows:

	1-5 Year Growth Rate	Long term Growth Rate	Discount Rates
CGU	10%	2%	12.50%

As part of the value in use calculation, management prepared an initial cash flow forecast, approved by the Board of Directors, covering the period to 31 December and the following five years. The long term growth rate has been used to determine a terminal value for the CGU.

The Group has conducted a sensitivity analysis on the carrying value on the CGU. If the sales projections reduce by 16%, the group will consider the possibility that the value of goodwill would be impaired.

The result of the value in use calculations was that no impairment is required in this period.

13 Intangible Assets - customer relationships

	Total €'000
Cost	
As at 31 December 2013	-
Additions	3,434
As at 31 December 2014	**3,434**
Additions	1,511
Revaluation on Exchange Rate movement	187
As at 31 December 2015	**5,132**
Additions	6,509
Revaluation on Exchange Rate movement	(11)
As at 31 December 2016	**11,630**
Amortisation and impairment	
As at 31 December 2014	468
Amortisation charge	857
Revaluation on Exchange Rate movement	25
As at 31 December 2015	**1,350**
Amortisation charge	1,629
Revaluation on Exchange Rate movement	(45)
As at 31 December 2016	**2,934**
Net book value	
As at 31 December 2015	3,782
As at 31 December 2016	**8,696**

Customer relationships are amortised over 5 years from the point of acquisition on a straight line basis.

14 Property, plant and equipment

Group

	Computers and software	Office, furniture and equipment	Leasehold improvements	Total
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2015	4,947	1,728	787	7,462
Currency revaluation	88	(15)	(16)	57
Additions	1,191	373	71	1,635
Acquisitions through business combinations at fair value	86	247	16	349
Disposals	(59)	(14)	(3)	(76)
At 31 December 2015	6,253	2,319	855	9,427
Currency revaluation	131	99	80	310
Additions	1,370	597	376	2,342
Acquisitions through business combinations at fair value	798	145	416	1,359
Disposals	(67)	(2)	(3)	(73)
At 31 December 2016	**8,485**	**3,158**	**1,724**	**13,367**
Accumulated depreciation				
Cost				
At 1 January 2015	3,765	868	68	4,701
Currency revaluation	102	(76)	(28)	(2)
Depreciation charge	857	344	96	1,297
Disposals	(55)			(55)
At 31 December 2015	4,669	1,136	136	5,941
Currency revaluation	(73)	225	18	170
Depreciation charge	1,205	429	169	1,803
Disposals	(45)			(45)
At 31 December 2016	**5,756**	**1,790**	**323**	**7,869**
Net book value				
As at 31 December 2015	1,584	1,183	719	3,486
At 31 December 2016	**2,729**	**1,368**	**1,401**	**5,498**

15 Trade Receivables

Group	**2016 €'000**	**2015 €'000**
Customers	14,347	7,825
Provision for Bad Debts	(468)	(306)
	13,879	**7,519**

16 Other Receivables

Group	As of 31 December **2016 €'000**	**2015 €'000**
Accrued Income	1,661	1,661
Prepayments	1,769	989
Other receivables	4,002	4,931
Other Tax and Social Security	346	394
Restricted cash (note 25)		345
	7,778	**8,320**

17 Cash and cash equivalents

Group	**2016 €'000**	**2015 €'000**
Cash at bank	17,020	19,018

Short term bank deposits		
	17,020	**19,018**

18 Short term investments

	As of 31 December	
	2016	**2015**
Group	**€'000**	**€'000**
Medium Term bank Deposits	-	27
	-	**27**

Medium term bank deposits relate to cash on deposit with maturity dates greater than three months, which cannot be accessed before maturity.

19 Shareholder's Equity

Share Capital

	Shares	€'000
As at 1 January 2015	**47,105,007**	**551**
Ordinary Shares of £0.01 issued for earn out of Binari Sonori S.R.L	158,250	2
Ordinary Shares of £0.01 issued on acquisition of Liquid Development LLC.	1,074,440	15
Placing of ordinary Shares of £0.01 on the market	5,500,000	78
As at 31 December 2015	**53,837,697**	**646**
Ordinary Shares of £0.01 issued on acquisition of remaining 50% of Kite Team shares	55,508	1
Ordinary Shares of £0.01 issued on acquisition of Volta	45,192	1
Exercise of Numis Warrants	400,324	4
Ordinary Shares of £0.01 issued on acquisition of Player Research	65,280	1
Ordinary Shares of £0.01 issued on acquisition of Sonox	24,881	1
As at 31 December 2016	**54,428,882**	**654**

On 6 April, 2016 the Group issued 55,508 of 1p shares at a value of 215p (€2.70) which formed part of the consideration for the acquisition of the remaining 50% of Kite Team.
On 28 July, 2016 the Group issued 45,192 of 1p shares at a value of 321p (€4.21) which formed the part of the consideration for the acquisition of Volta.

On 18 August 2016, Numis exercised warrants of 400,324 of 1p shares at a value of 138.5p (€1.61).

On 26 October 2016, the Group issued 65,280 of 1p shares at a value of 432p (€4.86) which formed the part of the consideration for the acquisition of Player Research.

On 22 December 2016, the Group issued 24,881 of 1p shares at a value of 508p (€6.03) which formed the part of the consideration for the acquisition of Sonox.

There is no limit to the number of shares which the company can issue.

Shares held by the Employee Benefit Trust (EBT)

Shares Held by the Employee Benefit Trust (EBT)	**2016**		**2015**	
	Number	**€'000**	**Number**	**€'000**
Ordinary Shares held by the EBT	399,026	802	400,000	804

Reserves
The following describes the nature and purpose of each reserve within owner's equity:

Reserve	**Description and purpose**
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Foreign Exchange Reserve	Gains or losses arising on retranslation of the net assets of the overseas operations into euro.
Share premium	The Share Premium account is the amount received for shares issued in excess of their nominal value, net of share issuance costs.

Share option reserve	The Share option reserve is the credit arising on share based payment charges in relation to the Company's share option schemes.
Shares to Be Issued	For deferred consideration which is to be provided for by the issue of a fixed number of shares at a future defined date, where there is no obligation on Keywords to offer a variable number of shares, the deferred consideration is to be classified as an Equity Arrangement and the value of the shares is fixed at the date of the acquisition.
Merger reserve	The merger reserve was initially created following the Group reconstruction, when Keywords Studios plc acquired the Keywords International Limited Group of companies. When the Group uses Keywords Studios plc shares as the 100% consideration for the acquisition of an entity, the value of the shares in excess of the nominal value, net of share issuance costs are now also recorded within this reserve, in line with S612 of the 2006 UK Companies Act.
Non-Controlling Interest Reserve	The non-controlling interest reserve represents the share of net assets / (liabilities) at the reporting date which is attributable to the holders of the non-controlling interest.

20 Share Options

In July 2013, at the time of the IPO, the Company put in place a Share Option Scheme and a Long Term Incentive Plan ("LTIP"). The charge in relation to these arrangements is shown below, with further details of the schemes following:

	2016 €'000	2015 €'000
Share Option Scheme Expense	208	157
Share Option Scheme - LTIP Expense	478	235
	686	**392**

Of the total share option charge, €45k relates to Directors of the Company as at 31 December, 2016. (2015: €55k).

Share Option Scheme

Share options are granted to Directors and to permanent employees. The exercise price of the granted options is equal to the market price of the shares at the time of the award of the options. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price in £ per share	Number of options	Average exercise price in £ per share	Number of options
Outstanding at the beginning of the year	1.2	1,642,242	1.2	642,286
Granted	2.45	223,200	1.58	1,059,040
Lapsed	1.67	(44,547)	1.2	(32,553)
Exercised	1.31	(148,839)	1.2	(26,531)
Outstanding at the end of the year	1.58	1,672,056	1.2	1,642,242
Exercisable at the end of the year	1.38	522,035	1.2	178,133

There were 203,200 options granted on 10 May 2016 at an exercise price of £2.54. All options were granted to employees of the Group, of which 12,800 of these options lapsed due to staff leaving in the period. Of the total options 190,400 remaining at 31 December, 2016, 63,466 are exercisable from 10 May 2018 to 9 May 2023, 63,466 are exercisable from 10 May 2019 to 9 May 2023 and 63,467 are exercisable from 10 May, 2020 to 9 May, 2023.

There were an opening balance of 1,054,780 options granted on 1 June 2015 at an exercise price of £1.58. All options were granted to employees of the Group of which 8,520 of these options lapsed due to staff leaving in the year and 50,000 options were exercised. A further 20,000 options were granted in relation to the June 2015 tranche at an exercisable price of £1.58. Of the total options of 1,016,260 remaining at 31 December, 2016, 250,000 are exercisable as at 31 December 2016 to 9 Oct, 2021, 300,000 are exercisable from10 October, 2017 to 9 October 2021, 55,420 are exercisable from 1 June 2018 to 31 May, 2023, 300,000 are exercisable from 10 October, 2018 to 9 October 2021, 55,420 are exercisable from 1 June 2019 to 31 May 2023, and 55,420 are exercisable from 1 June 2020 to 31 May 2023.

There was an opening balance of 587,462 of options that were granted on 12 July 2013 at an average exercise price of £1.20. During the year 23,227 of the options lapsed due to staff leaving and 98,839 options were exercised. All options were granted to either employees or Directors of the Group. Of the total 465,396 options granted remaining at 31 December, 2016, 136,018 are exercisable as at 31 December 2016 to 11 July 2020, 136,017 are exercisable as at 31 December 2016 to 11 July 2020 and 193,361 are exercisable from 12 July 2017 to 11 July 2020.

The inputs into the Black-Scholes model, used to value the options are as follows:

Share Options granted in 2013

	2016	2015
Weighted average share price (£)	1.23	1.23
Weighted average exercise price (£)	1.20	1.20
Average Expected Life	3 years	3 years
Expected Volatility	36.12%	36.12%
Risk free rates	0.5%	0.5%
Average expected dividends yield	1.00%	1.00%

Share Options granted in 2015

	2016	2015
Weighted average share price (£)	1.64	1.64
Weighted average exercise price (£)	1.58	1.58
Average Expected Life	3 years	3 years
Expected Volatility	28.03%	28.03%
Risk free rates	0.9%	0.9%
Average expected dividends yield	0.75%	0.75%

Share Options granted in 2016

	2016	2015
Weighted average share price (£)	2.54	-
Weighted average exercise price (£)	2.535	-
Average Expected Life	3 years	-
Expected Volatility	27.17%	-
Risk free rates	0.551%	-
Average expected dividends yield	0.58%	-

Expected volatility was determined by calculating the historical volatility of two similar listed companies over the previous 3 years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average remaining contractual life of the options outstanding at 31 December 2016 granted in 2013 was 3 months (2015: 6 months), granted in 2015 was 11 months (2015: 2 years and 7 months), and granted in 2016 was 2 years and 4 months. All of the outstanding options granted in 2013 can be exercised at an average of £1.20 over a 1 to 3 year period, for those granted in 2015 can be exercised at £1.58 over a 3 to 5 year period, for those granted in 2016 can be exercised at £2.535 over a 3 to 5 year period.

Long term incentive plan scheme

An alternative share plan was introduced to give awards to Directors and staff subject to outperforming the Numis Small Cap (excluding Investment Trusts) index in terms of shareholder return over a three year period. A total of 1,443,691 (2015: 860,206) nil price (1p) options are available to vest to Directors and to selected employees on the basis of the number of options they are entitled to.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price in £ per share	Number of options	Average exercise price in £ per share	Number of options
Outstanding at the beginning of the year	0.01	860,206	0.01	376,226
Granted	0.01	720,000	0.01	489,540
Lapsed	0.01	(105,654)	0.01	(5,560)
Exercised	0.01	(30,861)		
Outstanding at the end of the year	**0.01**	**1,443,691**	**0.01**	**860,206**
Exercisable at the end of the year	0.01	295,365		

On 10 May 2016 670,000 options were granted at an exercise price of £0.01 to Directors and employees of the Group. The options are exercisable from 10 May 2019 to 10 May 2023 if the market performance conditions are met as at 10 May 2019. Of the options granted on 1 June 2015, 40,000 have lapsed.

On 1 June 2015 388,480 options were granted at an exercise price of £0.01 to Directors and employees of the Group. The options are exercisable from 1 June 2018 to 1 June 2022 if the market performance conditions are met as at 1 June 2018. Of the options granted on 1 June 2015, 51,680 have lapsed.

A further 20,000 options were granted in relation to the June 2015 tranche at an exercise price of £0.01 to either employees or Directors of the Group.

On 6 January 2015, 101,060 options were granted at an exercise price of £0.01 to employees of the Group. The options are exercisable from 6 January 2018 to 6 January 2022 if the market performance conditions are met as at 6 January 2018. Of the options granted on 1 June 2015, 19,534 have lapsed.

On 12 July 2013, 326,226 options were granted at an exercise price of £0.01 to employees or Directors of the Group. Of these, 30,861 options were exercised in the year. The remaining 295,365 options granted are exercisable from 31 December 2016 to July 11, 2020.

Additionally 50,000 options granted at an exercise price of £0.01 to a director of the Group on 3 July 2014 remain as at 31 December, 2016. The options are exercisable from 3 July 2017 to 3 July 2021 if the market performance conditions are met as at 3 July 2017.

The options were valued using a Monte Carlo binomial model using the following inputs:

LTIPS granted in 2013

	2016	2015
Weighted average share price (£)	1.23	1.23
Weighted average exercise price (£)	0.01	0.01
Average Expected Life	3 years	3 years
Expected Volatility	36.12%	36.12%
Risk free rates	0.5%	0.5%

LTIPS granted in 2014

	2016	2015
Weighted average share price (£)	1.60	1.60
Weighted average exercise price (£)	0.01	0.01
Average Expected Life	3 years	3 years
Expected Volatility	35.52%	35.52%
Risk free rates	0.5%	0.5%

LTIPS granted in January, 2015

	2016	2015
Weighted average share price (£)	1.43	1.43
Weighted average exercise price (£)	0.01	0.01
Average Expected Life	3 years	3 years
Expected Volatility	31.2%	31.2%
Risk free rates	0.58%	0.58%

LTIPS granted in June, 2015

	2016	2015
Weighted average share price (£)	1.64	1.64
Weighted average exercise price (£)	0.01	0.01
Average Expected Life	3 years	3 years
Expected Volatility	28.03%	28.03%
Risk free rates	0.9%	0.9%

LTIPS granted in May, 2016

	2016	2015
Weighted average share price (£)	2.54	-
Average Expected Life	3 years	-
Expected Volatility	27.17%	-
Risk free rates	0.55%	-

Expected volatility was determined by calculating the historical volatility of two similar listed companies over the previous 3 years. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

As any dividends earned are to be re-invested into the business the impact of dividends has been ignored in the calculation of the LTIP share option charge.

The weighted average remaining contractual life of the options outstanding at 31 December 2016 was 2 years 4 months (2015: 1 years 8 months). All of the outstanding options can be exercised at £0.01 over a 4 year period.

21 Other payables

Group	**2016**	**2015**
	€'000	**€'000**
Current		
Accrued expenses	7,702	3,268
Payroll Taxes	542	482

Other payables	3,927	2,124
Contingent Consideration	251	1,979
Related party payable (Note 25)	9	9
	12,431	**7,862**
Non-current		
Other payables	113	55
Contingent Consideration	1,479	245
	1,592	**300**

During 2015 an amount of €590,000 relating to the Italian defined benefit pension was included within other current payables. This item has been shown as a separate line item on the face of the Statement of Financial Position during 2016, and as a result the classification in the 2015 comparative figures have been regrouped.

22 Employee Defined Benefit Plan

In line with statutory requirements in Italy, the subsidiaries in Milan maintain Employee Defined Benefit schemes. On leaving the company, each employee is entitled to 1/13.5 of their final salary for each year of service.

At year end, the Group commissioned an actuarial valuation of the related liability, based on salaries, length of service and variables including employee turnover, estimated salary increases and cost of capital.

The liabilities at year end are recorded as long term. The actuarial loss is recorded separately as other comprehensive income. The movements through the year are detailed;

Group	**2016**	**2015**
	€'000	**€'000**
Opening liability position as at 1 January	590	490
Service cost	193	94
Interest cost	10	7
Benefits paid	(30)	(67)
Branch transfer	-	57
Actuarial loss recorded	63	9
Closing liability position as at 31 December	**826**	**590**

The Directors have considered the key specific risk factors which the Group faces due to the employee defined benefit plan which is in place. Having fully considered all specific elements of these plans the directors believe that the key issues faced are as follows:

- The plan is currently 100% unfunded, there are no specific assets to meet the future liabilities as they fall due. As such there will be a significant cash flow impact as the liabilities must be met with current working capital as they fall due.

The Group has taken no specific actions to mitigate against these factors as due to the long-term nature of the plans it is expected that there will be no sudden financial impact on the Groups results caused by any of these factors.

In 2017, the group expects the costs of the employee benefit plan to be in line with current year levels, as staff levels in the Italian operations stay stable.

The actuarial valuation is based on the Projected Unit Credit Method, in line with IAS 19.

	2016
Actuarial valuations	**€'000**
Defined benefit obligations	826
Current concern provision	654
Current concern provision surplus / (deficit)	(172)
Value of accrued benefits	3,318
Future service liability	2,492
Cost for year	
Service cost	193
Interest cost	10
Actuarial loss	63
	266
Actuarial losses	
Change due to experience	30
Change due to demographical assumptions	5
Change due to financial assumptions	28
	63

The Directors have considered the key specific risk factors which the Group faces due to the employee defined benefit plan which is in place. Having fully considered all specific elements of these plans the directors believe that the key issues faced are as follows:

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In 2017, the group expects the costs of the employee benefit plan to be in line with current year levels, as staff levels in the Italian operations stay stable.

The actuarial valuation is based on the Projected Unit Credit Method, in line with IAS 19.

Assumptions underlying the Actuarial Valuations and Sensitivities of the Assumptions

For the actuarial valuations the following demographic and economic & financial assumptions were applied;

Demographic Assumptions

- The probabilities of death were derived from the bill of the Italian population by age and sex, as recorded by the Government Statistics Office in 2000 and reduced by 25%
- The probabilities of elimination for absolute and permanent disability of the employee are taken from the disability tables currently used in practice separate reinsurance for age and sex
- The probabilities of employees leaving due to resignations and dismissals in accordance with company management have been placed at 6% per annum
- The probabilities of requesting an advance have been estimated on the basis of company history 2010 to 2016, and placed equal to 2.94% per annum with an average rate of advance equal to 54.38%
- For retirement for the general working population, it is assumed that the first of the pension requirements is valid for the mandatory general insurance

Economic & Financial Assumptions	
Salary Increase	2.50%
Inflation	1.73%
Discount rate	1.29%

Key Statistics	
Staff Number	97
Average Age	38.2
Average Service	3.6
Average Defined Benefit per staff	6,745
Average Salary for Defined Benefit	31,723

Actuarial Losses	**2016 €'000**
Change due to Experience	32
Change due to Demographical assumption	5
Change due to Financial assumption	30
Actuarial Losses	67

Interest Rate Sensitivities	
-0.50%	882
0.50%	776

Mortality Rate Sensitivities	
-0.025%	827
0.025%	782

Staff Turn Over Rate Sensitivities	
-0.50%	835
0.50%	818

Staff Salary Increases Rate Sensitivities	
-0.50%	808
0.50%	845

23 Loans and borrowings

Group	**2016 €'000**	**2015 €'000**

Expiry within 1 Year	8,025	1,163
Expiry between 1 Year and 2 Years	55	350
Expiry over 2 Years	290	221
	8,370	**1,734**

A loan with RBC bank in Canada of CAD $1.7m (€1.1m) at 31 December 2015 was repaid on 15 April 2016.

The loans in Kite Team of €0.6m at 31 December 2015 were settled in March 2016.

The company entered into a loan agreement with Barclay's Bank. The agreement allows financing up to €15 million. At year end, €8 million was drawn down.

The group also took on loans on the acquisition of Enzyme of CAD $0.5m (€0.4m).

The currencies of these loans are as follows;

	2016	**2015**
	€'000	**€'000**
Euro	8,000	621
Canadian Dollars	370	1,113
	8,370	**1,734**

4 Investment in Subsidiaries

	2016
	€'000
Opening 1 January 2016	12,765
Acquisition of Synthesis	17,894
Closing 31 December 2016	**30,659**

The results and financial position of all the subsidiaries are included in the consolidated statements.

Details of the Company and Group's subsidiaries as at 31 December 2016 are set out below:

Name	***Country of incorporation***	***Date of incorporation / acquisition***	***Proportion of voting rights and ordinary share capital held***
Keywords International Limited	Ireland	13/05/1998	100%
Keywords International Co. Limited	Japan	30/11/2010	100%
Keywords International Corporation inc	Canada	22/12/2010	100%
Keywords Italia Srl	Italy	18/05/2011	100%
Keywords International Inc	United States	26/09/2012	100%
KW Studios Limited	United Kingdom	29/05/2013	100%
Liquid Violet Limited	United Kingdom	15/01/2014	100%
Babel Media Limited	United Kingdom	17/02/2014	100%
Babel Games Services Inc	Canada	17/02/2014	100%
Babel Media India Private limited	India	17/02/2014	100%
Babel Media USA Inc	United States	17/02/2014	100%
Keywords International Pte. Limited	Singapore	24/04/2014	100%
Binari Sonari SRL	Italy	08/05/2014	100%
Binari Sonari Inc	United States	08/05/2014	100%
Lakshya Digital Private Limited	India	10/10/2014	100%
Lakshya Digital Singapore Pte Ltd	Singapore	10/10/2014	100%
Edugames Solutions Private Limites	India	10/10/2014	100%
Alchemic Dream Inc	Canada	06/01/2015	100%
Keywords International Barcelona SL	Spain	09/01/2015	100%
Reverb Localizacao - Prearacao de Documentos Ltda	Brazil	18/01/2015	100%
Keywords (Shanghai) Information Technology	China	02/04/2015	100%
Kite Team SL	Spain	16/07/2015	100%
Kite Team Mex S. de R.L. de. CV	Mexico	16/07/2015	100%
Liquid Development LLC	United States	20/08/2015	100%
Ankama Asia Pte. Ltd	Singapore	22/03/2016	100%
Synthesis Global Solutions	Switzerland	12/04/2016	100%
Synthesis Deutschland	Germany	12/04/2016	100%
Sillabit S.R.L	Italy	12/04/2016	100%
Keywords International SAS	France	08/06/2016	100%

Volta Creation Inc	Canada	29/07/2016	100%
Player Research	United Kingdom	26/10/2016	100%
Global Video-Games Services Inc., trading as Enzyme Testing Labs	Canada	16/11/2016	100%
Sonox Audio Solutions S.L.U.	Spain	22/12/2016	100%

25 Related parties and shareholders

Italicatessen Limited, a company registered in Ireland is related by virtue of a common significant shareholder. P.E.Q. Holdings Limited is 100% owner of Italicatessen Limited. At 31 December 2016, P.E.Q Holdings Limited owned 22.2% (2015: 24.5%) of the Company. In addition, Mr. Giorgio Guastalla is a Director of Italicatessen Limited, P.E.Q. Holdings Limited and the Company, and owns, or controls, 90% of the share capital of P.E.Q Holdings Limited.

The following transactions arose with Italicatessen Limited, which provides canteen services to Keywords International Limited

	2016	2015
	€'000	€'000
Operating Expenses		
Canteen Charges	53	24
	53	**24**

The following are year-end balances:

	2016	2015
	€'000	€'000
Italicatessen Limited	9	9
	9	**9**

The company paid the following amounts to Mr. Giorgio Guastalla, Director of the Company, and shareholder of P.E.Q Holdings Limited, in respect of rent on premises occupied by the employees of the Group in Dublin.

	2016	2015
	€'000	€'000
Operating Expenses		
Rental Payment	22	22
	22	**22**

The Company entered into a deed of undertaking and indemnity on 8 July 2013 with Mr. Andrew Day, CEO and Director of the Company related to possible liabilities which might arise due to the restructuring of the Group prior to its IPO on 12 July 2013. As part of this deed of undertaking and indemnity, Mr. Day deposited £250,000 as security for the Company. This is included as Restricted Cash in Other Receivables of the Company. This amount has been repaid to Mr. Day in 2016. There was a corresponding liability included in Other Payables in 2015.

The details of key management compensation (being the remuneration of the Directors) are set out in note 11.

As at 31 December 2016 and 2015, the Company had amounts receivable from its subsidiaries, amounting to €20,454,923 (2015: €€20,598,567) relating to intergroup trading activities.

26 Financial Instruments and risk management

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are substantially independent of changes in market interest changes. The management monitors interest rate fluctuations on a continuous basis and acts accordingly.

Where the Group has a significant amount of surplus cash, it will invest in higher earning interest deposit accounts.

Due to interest rate conditions, the interest rates for short term deposits are at similar levels to those achieved for longer terms. The Group is not unduly exposed to market interest rate fluctuations, and no interest rate sensitivity analysis has been presented as a result.

Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

The Group closely monitors the activities of its counterparties and maintains regular contact which enables it to ensure the prompt collection of customers' balances.

The Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the Group's maximum exposure to credit risk in connection with its financial assets. Trade and other receivables are carried on the statement of financial position net of bad debt provisions estimated by the Directors based on prior year experience and an evaluation of prevailing economic circumstances.

Whenever possible and commercially practical the Group invests cash with major financial institutions in each jurisdiction where it operates. The Group periodically monitors the credit rating and stability of these institutions.

The ageing of trade and receivables that are past due but not impaired can be analysed as follows:

Group

	Total	Not past due	1-2 months overdue	More than 2 months past due
	€'000	€'000	€'000	€'000
As at 31 December 2016	**13,879**	**12,877**	**907**	**95**
As at 31 December 2015	7,519	5,313	2,049	157

The above balances relate to customers with no default history.

A provision for doubtful debtors is included within trade receivables that can be reconciled as follows:

	2016	**2015**
	€'000	**€'000**
Provision at the beginning of the year	306	260
Charged to income statement	188	46
Utilised	(26)	-
Provision at end of the year	**468**	**306**

Related party receivables of €nil were past due at 31 December 2016 (2015: nil).

Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The foreign exchange risk arises for the Group where assets and liabilities arise and are held in overseas subsidiaries in a currency other than the euro and to a lesser extent where individual Group entities enter into transactions denominated in currency other that their functional currency.

The Group's policy, where possible, is for Group entities to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and the expenses incurred and by settling liabilities denominated in their functional currency with cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

Over the course of the year the Group's currency has increased and diversified due to the addition of the newly acquired subsidiaries. The Group is predominantly exposed to currency risk on the balances held within working capital within the Group and the exposure is concentrated in the movement of the Canadian Dollar, US dollar and Sterling against the Euro. The effect of a strengthening and weakening of 10% of these currencies against the euro at the reporting date on the working capital balances held at this date would, all other variable held constant, have resulted in the following pre-tax profit /(loss) impact for the year as follows:

	10% Strengthening	**10% Weakening**
	€'000	**€'000**
United States Dollar to Euro	549	(499)
Canadian Dollar to Euro	209	(190)
Sterling to Euro	129	(117)

Total financial assets and liabilities

The carrying amount of the financial assets and liabilities shown in the Group and Company statements of financial position are stated at fair value.

Liquidity Risk

Liquidity risk arises from the Group's management of working capital and the financial charges on its debt instruments.

The Group's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due.

The following are the contractual maturities (representing undiscounted contractual cash flows) of the Group's and Company's financial liabilities:

Group

Year ended 31 December 2016	**Total**	**Within 1 year**	**1-2 years**	**2-5 years**
	€'000	**€'000**	**€'000**	**€'000**

Trade payables	4,822	4,822		
Contingent Consideration	1,730	251	1,479	
Employee Defined Benefit	826			826
Other accounts payable	12,293	12,180	113	

Year ended 31 December 2015	Total	Within 1 year	1-2 years	2-5 years
	€'000	€'000	€'000	€'000
Trade payables	2,761	2,761		-
Contingent Consideration	2,224	1,979	245	
Employee Defined Benefit	590	-	-	590
Other accounts payable	5,938	5,883	55	

Contingent considerations at 31 December 2016 have arisen on business combinations. They are based on set amounts to be paid in the future to sellers under the purchase agreements.

27 Operating Lease Commitments

The Group maintains a portfolio of leased properties. The terms of property leases vary from country to country, although they all tend to be tenant repairing with rent reviews every 2 to 5 years and some have break clauses.

The total future value of the minimum lease payments is due as follows:

Group	2016 €'000	2015 €'000
Not later than one year	2,318	1,563
Later than one year and not later than five years	6,031	4,224
Later than five years	903	476
	9,252	**6,263**

28 Finance Lease Commitments

The Group has leased computer equipment and office telephone systems. Such assets are generally classified as finance leases as the rental period amounts to the estimated useful economic life of the assets concerned and often the Group has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.
The total future value of the minimum lease payments is due as follows:

Group	Minimum Lease Payments €'000	Interest	Present Value
2016			
Not later than one year	31	2	29
Later than one year and not later than five years	18	1	17
Later than five years	-	-	-
	49	**3**	**46**
2015			
Not later than one year	120	8	112
Later than one year and not later than five years	61	3	58
Later than five years	-	-	-
	181	**11**	**170**

29 Deferred Tax

Details of the deferred tax assets and liabilities, and amounts recognised in the profit or loss are as follows:

	Asset	Liability	Net	(Charged) / credited to profit or loss
	2016	**2016**	**2016**	**2016**
	€'000	**€'000**	**€'000**	**€'000**
Accelerated capital allowances	-	9	(9)	4

Personal severance indemnity	109	-	109	100
Available losses	44	-	44	(243)
Rent - free inducement	-	116	(116)	(66)
Fixed asset excess of tax over accounting	173	3	170	42
Deferred tax related to Multi Media Tax Credits	5	796	(791)	501
Other temporary and deductible differences	300	19	281	(88)
Deferred Tax arising on intangibles	249	2,310	(2,061)	459
Net tax assets / (liabilities)	880	3,253	(2,373)	709

All deferred tax assets have been classified in non-current assets in 2016.

30 Non-Controlling Interest

	2016 €'000	2015 €'000
Opening Balance	**(1,309)**	-
Liabilities of Kite Team attributable to shareholder at the acquisition date	-	(50)
Loss of Kite team attributable to the shareholders of the group	(61)	(109)
Contingent Consideration for the purchase of the remaining 50% of Kite Team	-	(1,150)
Settlement of Non-Controlling Interest	1,370	-
	-	**(1,309)**

Keywords International Limited acquired 50% of the issued share capital of Kite Team in 2015, a company registered in Spain.

In March 2016, Keywords International Limited acquired the remaining 50% of shares in Kite Team. The settlement value was €1,370,000; comprising the settlement of the put and call option of €1,150,000 through €1,000,000 in cash and €150,000 in KWS shares, plus €220,000 transfer of losses from Minority Interest.

31 Acquisitions completed in the current year

Acquisition of Ankama Asia Pte Ltd.

On 22 March 2016 the Group acquired the entire issued share capital of Ankama Asia Pte Ltd ("Ankama"), a company registered in Singapore, which specialises in providing services to support the live operations of the games of Ankama France. The company has a four year agreement for the continued provision to service to Ankama and also plans to significantly increase the scale of the Studio, which is based in Manila, to service new and existing clients of Keywords. The acquisition will strengthen Keywords range of customer service offerings to customers with online and mobile games.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out below:

Ankama Asia Pte

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Identifiable intangible assets - customer relationships		44	44
Trade and other receivable	6		6
Cash and cash equivalents	120		120
Trade and other Payables	(81)		(81)
Deferred tax liabilities		(7)	(7)
Total identifiable assets	45	37	82
Goodwill			214
Total consideration			296
Satisfied by:			
Cash			296
Less: cash and cash equivalent balances transferred			(120)
			176

The intangible assets are to be amortised over their estimated useful lives of 5 years.

The main factors leading to recognition of goodwill on the acquisition of Ankama Asia Pte Ltd are the presence of intangible assets in the acquired entity which do not value for separate recognition such as the expertise in customer service and an unidentified proportion representing the balance contributing to profit generation.

Ankama Asia Pte Ltd contributed €527,856 revenue and €17,288 loss before tax to the Group between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, revenue for 2016 of €540,693 would have been contributed to the Group and loss before tax of €18,022.

Acquisition costs of €39,140 have been charged through the Statement of Comprehensive Income.

Acquisition of Synthesis Group

The Group acquired the business of the Synthesis Group of Companies on 12 April 2016, including

- 100% of the share capital of Sillabit SRL, a company registered in Italy,
- 100% of the share capital of Synthesis Deutschland GmBH, a company registered in Germany and
- 100% of the share capital of Synthesis Global Solutions SA, (SGSS) a company registered in Switzerland.

The Synthesis Group provide localization and audio services to some of the leading games publishers, and was acquired to extend the Group's client base and global reach.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Synthesis Group

	Book Value €'000	**Fair Value Adjustment €'000**	**Fair Value €'000**
Financial Assets			
Property, plant and equipment	236		236
Identifiable intangible assets - customer relationships		2,774	2,774
Trade and other receivables	1,716	(92)	1,624
Cash and cash equivalents	992		992
Trade and other payables	(1,856)		(1,856)
Deferred tax asset			
Deferred tax liabilities		(538)	(538)
Total identifiable assets	1,088	2,144	3,232
Goodwill			14,664
Total consideration			17,896
Satisfied by:			
Cash			10,200
Shares to be Issued			6,906
Deferred consideration			790
Total consideration transferred			17,896
Net cash outflow arising on acquisition			
Cash			10,200
Less: cash and cash equivalent balances transferred			(992)
			9,208

Deferred Cash Consideration of €1,000,000 is due for payment on 12 April 2018 in accordance with the share purchase agreement. The deferred consideration recorded within as contingent consideration within non-current other payables on the 2016 balance sheet represented the fair value amount at the balance due.

The main factors leading to the recognition of goodwill on the acquisition of the Synthesis Group are the presence of certain intangible assets in the acquired entity, which are not valued for separate recognition, such as the expertise in sound recording and localisation and reputation of the staff within the industry.

A fixed amount of 2,376,518 Keywords Studios Plc shares will be issued as part of the deferred consideration. The shares have been valued at the share price at the date of acquisition, £2.32 (€2.91). €6,906,000 has been recorded as Shares to be Issued within equity..

The Synthesis Group of companies contributed €18,012,547 revenue and €3,494,458 profit before tax to the Group between the date of acquisition and the balance sheet date.

If the acquisition had been completed on the first day of the financial year, total revenue for 2016 of €20,662,464 would have been contributed to the Group, and a corresponding profit before tax of €3,887,462.

Acquisition costs of €254,698 have been charged through the Statement of Comprehensive Income.

Acquisition of Mindwalk Studios Inc. and Mindwalk Studios Ltd.

On 31 May 2016 the Group acquired 100% of the assets, the business and the customer contracts of Mindwalk Studios Inc., a company registered in China, and Mindwalk Studios Ltd, a company registered in the British Virgin Islands. The companies trade as one business entity and specialise in the provision of art creation services for the video games industry. The acquisition is in line with the Group's strategy to further strengthen art services and to extend the Group's client base in this service.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Mindwalk

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Property, plant and equipment	465	(333)	132
Identifiable intangible assets - customer relationships		1,100	1,100
Trade and other receivables	581	(39)	542
Cash and cash equivalents	442	(30)	412
Deferred tax asset		83	83
Deferred tax liabilities		(137)	(137)
Total identifiable assets	1,488	644	2,132
Goodwill			3,117
Total consideration			5,249
Satisfied by:			
Cash			3,048
Deferred Cash Consideration			315
Shares to be Issued			1,886
Total consideration transferred			5,249
Net cash outflow arising on acquisition			
Cash			3,048
Less: cash and cash equivalent balances transferred			(412)
			2,636

The main factors leading to recognition of goodwill on the acquisition of Mindwalk are the presence of certain intangible assets in the acquired entity, which are not valued for separate recognition, such as the expertise in art creation service and reputation of the staff within the industry. The fair value of the shares to be issued as part of the acquisition has been determined as being the share price on the date of the transaction.

A fixed amount of 513,189 shares will be issued as part of the deferred consideration. The shares have been valued at the share price at the date of acquisition, £2.80 (€3.67) and €1,886,000 has been recorded as Shares to be Issued in reserves.

Deferred Cash Consideration of USD$500,000 is due for payment on 5 April 2019 in accordance with the purchase agreement. The deferred consideration recorded within as contingent consideration within non-current other payables on the 2016 balance sheet represented the fair value amount at the balance due.

Mindwalk contributed €3,166,196 revenue and €227,528 profit before tax to the Group between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, revenue for 2016 of €4,825,497 would have been contributed to the Group and €301,165 profit before tax.

Acquisition costs of €199,312 have been charged through to the Comprehensive Income Statement.

Acquisition of Volta Création Inc.

On 28 July 2016, the Group acquired 100% of the issued share capital of Volta Création Inc., a company registered in Canada, which specialises in Art Creation for the Games industry. Volta was acquired to increase the capabilities and capacity of the art creation service and in particular to strength to the Groups offering in concept art.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Volta

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Fixtures, Fittings & Equipment	74		74
Identifiable intangible assets - customer relationships		761	761
Trade and other receivable	513		513
Cash and cash equivalents	(31)		(31)
Trade and other Payables	(322)		(322)

Deferred tax liabilities		(202)	(202)
Total identifiable assets	234	559	793
Goodwill			2,701
Total consideration			3,494
Satisfied by:			
Cash			3,324
Equity Instruments (45,192 shares of the parent company)			170
			3,494
Net cash outflow arising on acquisition			
Cash			3,324
Less: cash and cash equivalent balances transferred			31
			3,355

The main factors leading to the recognition of goodwill on the acquisition of Volta Création Inc. are the presence of certain intangible assets in the acquired entity, which are not valued for separate recognition, such as the expertise in Art and Art Services and reputation of the staff within the industry.

Volta Création Inc. contributed €1,181,050 revenue and €209,305 profit before tax to the Group between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, revenue for 2016 of €2,406,878 would have been contributed to the Group and profit before tax of €277,687.

Acquisition costs of €19,298 have been charged through the Statement of Comprehensive Income.

Acquisition of Player Research Ltd

On 26 October 2016, the Group acquired 100% of the issued share capital of Player Research Ltd., a company registered in the United Kingdom, which is an industry-leading user research and playtesting specialist. The acquisition is in line with the Group's strategy to extend its services, with the objective of providing end to end services to its global client base covering all aspects of game production and live operations support.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Player Research

	Book Value €'000	**Fair Value Adjustment €'000**	**Fair Value €'000**
Financial Assets			
Fixtures, Fittings & Equipment	45		45
Identifiable intangible assets - customer relationships		158	158
Trade and other receivable	169		169
Cash and cash equivalents	489		489
Trade and other Payables	(133)		(133)
Deferred tax liabilities		(32)	(32)
Total identifiable assets	570	126	696
Goodwill			1,014
Total consideration			1,710
Satisfied by:			
Cash			1,128
Deferred Cash			265
Equity Instruments (65,280 shares of the parent company)			317
			1,710
Net cash outflow arising on acquisition			
Cash			1,128
Less: cash and cash equivalent balances transferred			(489)
			639

Deferred Cash Consideration of STG £300,000 is due for payment on 26 October 2018 in accordance with the share purchase agreement. The deferred consideration recorded within as contingent consideration within non-current other payables on the 2016 balance sheet represented the fair value amount at the balance due.

The main factors leading to the recognition of goodwill on the acquisition of Player Research Ltd. are the presence of certain intangible assets in the acquired entity, which are not valued for separate recognition, such as the expertise in user research and playtesting and reputation within the industry.

Player Research contributed €182,820 revenue and €64,525 profit before tax to the Group between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, revenue for 2016 of €921,339 would have been contributed to the Group and profit before tax of €307,592.

Acquisition costs of €40,785 have been charged through the Statement of Comprehensive Income.

Acquisition of Global Video-Games Services Inc., trading as Enzyme Testing Labs

On 16 November 2016, the Group acquired 100% of the issued share capital of Global Video-Games Services Inc., trading as Enzyme Testing Labs, a company incorporated under the laws of Quebec. Enzyme's strengths are in functional QA and localisation testing of video games for leading game publishers and developers. In addition, it provides localisation services and focus group testing, all of which will significantly strengthen Keywords' service offerings to the global video games market.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Enzyme

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Fixtures, Fittings & Equipment	929	(13)	916
Identifiable intangible assets - customer relationships		1,669	1,669
Trade and other receivable	2,546		2,546
Cash and cash equivalents	695		695
Trade and other Payables	(2,334)		(2,334)
Deferred Tax Assets		3	3
Deferred tax liabilities		(761)	(761)
Total identifiable assets	1,837	899	2,735
Goodwill			731
Total consideration			3,466
Satisfied by:			
Cash			3,466
Net cash outflow arising on acquisition			
Cash			3,466
Less: cash and cash equivalent balances transferred			(695)
			2,771

The main factors leading to the recognition of goodwill on the acquisition of Enzyme are the presence of certain intangible assets in the acquired entity, which are not valued for separate recognition, such as the expertise in functional QA and localisation testing.

Enzyme contributed €1,094,913 revenue and €59,820 profit before tax to the Group between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, revenue for 2016 of €8,632,254 would have been contributed to the Group and profit before tax of €954,332.

Acquisition costs of €243,774 have been charged through the Statement of Comprehensive Income.

Acquisition of Sonox Audio Solutions S.L.U.

On 22 December 2016, the Group acquired 100% of the issued share capital of Sonox Audio Solutions S.L.U. ("Sonox"), a company incorporated under the laws of Spain. Sonox provides Audio and Localisation for Spain and Mexico. Sonox already provides certain services to the Group and its acquisition will enable the Group to capture the margins on those services.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Sonox

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Fixtures, Fittings & Equipment	2		2
Identifiable intangible assets - customer relationships			
Trade and other receivable	268		268
Cash and cash equivalents	177		177
Trade and other Payables	(411)		(411)
Deferred tax liabilities			
Total identifiable assets	36		36
Goodwill			614
Total consideration			650

Satisfied by:	
Cash	500
Equity Instruments (24,881 shares of the parent company)	150
	650
Net cash outflow arising on acquisition	
Cash	500
Less: cash and cash equivalent balances transferred	(177)
	323

The main factors leading to the recognition of goodwill on the acquisition of Sonox are the presence of certain intangible assets in the acquired entity, which are not valued for separate recognition, such as the expertise in audio and localisation.

Sonox contributed €52,032 revenue and €87,969 additional profit before tax to the Group between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, revenue for 2016 of €1,308,004 would have been contributed to the Group and profit before tax of €454,827.

Acquisition costs of €21,687 have been charged through the Statement of Comprehensive Income.

32 Business Combinations completed in 2015

Acquisition of Alchemic Dream Inc.

On 6 January, 2015 the Group acquired the entire issued share capital of Alchemic Dream Inc., a company registered in Canada, which specialises in providing live operations support to on-line games for a number of game publishers. The acquisition is in line with the Group's strategy to diversify into the provision of complementary services to the video game market and strengthens the Group's service of games already in production. Additionally the acquisition leverages the Group's existing expertise, locations, scale and global reach to extend the services provided by Alchemic Dream as well as generating synergies.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Alchemic Dream	**Book Value €'000**	**Fair Value Adjustment €'000**	**Fair Value €'000**
Financial Assets			
Property, plant and equipment	38	(21)	17
Identifiable intangible assets - customer relationships		286	286
Trade and other receivable	802	(111)	691
Cash and cash equivalents	38		38
Trade and other Payables	(802)		(802)
Deferred tax liabilities		(36)	(36)
Total identifiable assets	75	118	194
Goodwill			690
Total consideration			883
Satisfied by:			
Cash			883
Net cash outflow arising on acquisition			
Cash			883
Less: cash and cash equivalent balances transferred			(38)
			845

The intangibles assets are to be amortised over their estimated useful lives of 5 years.

The main factors leading to recognition of goodwill on the acquisition of Alchemic Dream are the presence of certain intangible assets in the acquired entity which do not value for separate recognition such as the expertise in customer service, reputation within the industry, and, an unidentified proportion representing the balance contributing to profit generation.

During 2015 Alchemic Dream contributed €4,100,036 revenue and €348,608 profit before tax to the Group. If the acquisition had been completed on the first day of the financial year, revenue of €4,161,397 would have been contributed to the Group and €359,996 profit before tax before taking into account fair value adjustments of €154,193 in 2015.

Acquisition costs of €67,146 were charged through the Comprehensive Income Statement in 2015.

Acquisition of Reverb Localização - Preparação de Documentos Ltda

On 18 January, 2015 the Group acquired 100% of the issued share capital of Reverb Localização - Preparação de Documentos Ltda ("Reverb"), a company registered in Brazil. Reverb provides localisation and audio management services for Brazilian Portuguese for some of the leading games publishers. Reverb Studios was acquired to widen the scope of the Group's services business and to extend the Group's client base.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	Book Value €'000	**Fair Value Adjustment €'000**	**Fair Value €'000**

Financial Assets		
Trade and other receivable	14	14
Cash and cash equivalents	12	12
Total identifiable assets	26	26
Goodwill		274
Total consideration		300
Satisfied by:		
Cash		200
Deferred consideration		100
Total consideration transferred		300
Net cash outflow arising on acquisition		
Cash consideration		200
Less: cash and cash equivalent balances transferred		(12)
		188

The main factors leading to recognition of goodwill on the acquisition of Reverb were the presence of certain intangible assets in the acquired entity which did not value for separate recognition such as the expertise in sound recording and localisation, reputation within the industry, and, an unidentified proportion representing the balance contributing to profit generation.

During 2015, Reverb contributed €544,043 revenue (including €79,097 of intercompany sales subsequently billed onwards) and €238,539 profit before tax to the Group. If the acquisition had been completed on the first day of the financial year, revenue of €572,234 would have been contributed to the Group and €243,770 profit before tax in 2015.

Acquisition costs of €1,224 were charged through the Comprehensive Income Statement in 2015.

Acquisition of Kite Team

On 16 July, 2015 the Group acquired 50% of the issued share capital of Kite Team, a company registered in Spain. Kite provides localisation and audio management services for some of the leading games publishers. The acquisition is in line with the Group's strategy to diversify into the provision of complementary services to the video game market and strengthens the Group's service of games already in production.

The Directors of the Group have reviewed IFRS 10 (Consolidated Financial Statements) and are satisfied that the Group has effective control of Kite Team and accordingly at the date of acquisition it is treated as a subsidiary within the consolidation. This conclusion has been determined with particular consideration given to the influence over the acquired entity, exposure to variable returns, and the ability to influence the entity to affect the amount of the variable returns.

At the date of acquisition the Group set up a put and call option to acquire the remaining 50% of the share capital of Kite Team by the end of 2017. The terms of the contract are such that the original owners retain an active interest in the business until such time that the put or call option is exercised, and have the ability to participate in the variable returns of the business. On that basis the Directors have concluded that it is appropriate to record the remaining 50% as a Non-controlling interest in the business.

As a consequence of the put option a financial liability was recognised as at 31 December, 2015 which was based on the anticipated cash and share settlement, which was calculated by reference to anticipated earnings. The fair value of this financial liability at 31 December 2015 was €1,150,000, and was recorded in other payables in accordance with IAS 32. This amount was agreed to be settled in 2016, and was settled as €1m in cash and €150,000 in equity instruments in Keywords Studios. As the amounts were known prior to the finalisation of the signing of the 2015 annual report, and agreed to be settled during 2016, this represented the fair value of the liability recorded as at 31 December 2015.

During 2016, the remaining 50% interest in Kite Team was acquired via the settlement of the €1.15m liability as noted above.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

Acquisition of Kite Team

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Property, plant and equipment	322		322
Trade and other receivable	377		377
Cash and cash equivalents	117		117
Trade and other payables	(291)		(291)
Long term loan	(625)		(625)
Total identifiable liabilities	(100)		(100)
Less non-controlling interest	50		50
KWS share of total identifiable liabilities	(50)		(50)
Goodwill			550
Total consideration			500
Satisfied by:			
Cash			500
Net cash outflow arising on acquisition			
Cash consideration			500
Less: cash and cash equivalent balances transferred			(117)
			383

The main factors leading to recognition of goodwill on the acquisition of Kite are the presence of certain intangible assets in the acquired entity which did not value for separate recognition such as the expertise in sound recording and localisation, reputation within the industry, and, an unidentified proportion representing the balance contributing to profit generation.

During 2015 Kite contributed €610,307 revenue (including €304,681 of intercompany sales subsequently billed onwards) and €217,721 of a loss before non - controlling interest to the Group. If the acquisition had been completed on the first day of the financial year, revenue of €1,149,460 would have been contributed to the Group and €301,124 of a loss before non-controlling interest in 2015.

Acquisition costs of €70,174 were charged through the Comprehensive Income Statement in 2015.

Acquisition of Liquid Development LLC

On 20 August 2015 the Group acquired 100% of the assets of Liquid Development through the purchase of the membership interests. The company registered in USA specialises in providing art creation services for the video games industry. The acquisition is in line with the Group's strategy to diversify into the provision of complementary services to the video game market and strengthens the Group's service of games already in production.

The Directors of the Group have reviewed the requirements of IFRS 3 (Business Combinations) paragraph B5 - B12 and concluded that as Liquid Development constitutes an on-going business within the Group that it should be accounted for as a business combination.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Property, plant and equipment		108	108
Identifiable intangible assets - customer relationships		1,225	1,225
Trade and other receivable	340		340
Cash and cash equivalents	269		269
Trade and other payables	(185)		(185)
Deferred tax liabilities		(541)	(541)
Total identifiable liabilities	424	792	1,216
Goodwill			6,801
Total consideration			8,017
Satisfied by:			
Cash			5,365
Equity instruments (1,074,440 shares of the parent company)			2,413
Deferred consideration settled in 2017			239
Total consideration transferred			8,017
Net cash outflow arising on acquisition			
Cash consideration			5,365
Less: cash and cash equivalent balances transferred			(269)
			5,096

The deferred consideration recorded within other payables on the 2015 balance sheet represented the fair value amount of the balance due.

The main factors leading to recognition of goodwill on the acquisition of Liquid Development are the presence of certain intangible assets in the acquired entity which do not value for separate recognition such as the expertise in art creation services, reputation within the industry, and, an unidentified proportion representing the balance contributing to profit generation. The fair value of the shares issued as part of the acquisition has been determined as being the share price on the date of the transaction.

During 2015, Liquid Development contributed €1,999,469 revenue and €345,591 profit before tax to the Group. If the acquisition had been completed on the first day of the financial year, revenue of €6,068,150 would have been contributed to the Group and €1,169,440 profit before tax in 2015.

Acquisition costs of €63,145 were charged through the Comprehensive Income Statement in 2015.

33 Events after the reporting date

Acquisition of Spov Ltd

On 16 February 2017 the Group acquired the entire issued share capital of Spov Ltd, a company registered in the United Kingdom, a specialist animation studio. It is expected that the acquisition will strengthen the group's market position as a leading global provider of digital art services and will contribute to the continuing growth in this area.

Under the terms of the acquisition, a total consideration of not more than STG 1.16m (€1.36m) was agreed. STG 0.3m (€0.351m) was paid on acquisition, the remaining consideration will be paid to a maximum of STG 0.816m (€0.955m) over two years to March 2018.

The book value acquired of net assets is as follows:

	€'000
Financial Assets & Liabilities	
Fixed Assets	30
Trade Receivables	16
Trade Payables	(120)
Overdraft	(18)
Net Liabilities	(93)
Goodwill	1,450
Total Consideration	1,357

Satisfied by	
Cash	351
Deferred Consideration	1,006
Net Cash outflow arising on acquisition	
Cash	351
Overdraft	18
	369

At the date of authorisation of these financial statements a detailed assessment of the fair value of the identifiable net assets has not been completed. Information on the revenue and impact on profit due to this acquisition has not been disclosed as it is impracticable to do so at this point in time.

Annual report and accounts

The annual report and accounts will be posted to shareholders shortly and will be available to members of the public at the Company's registered office at 8 Clifford Street London W1S 2LQ and on the Company's website http://www.keywordsstudios.com/en/investors.

Annual General Meeting

The Annual General Meeting of Keywords Studios plc will be held on 25 May 2017.

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