RNS Number : 8314V
Keywords Studios PLC
11 April 2019

Correction: The following is a correction to the Final Results announcement for the year ended 31 December 2018 announced at 7 a.m. on 08.04.19 (RNS no: 3625V).

The changes relate to the cash conversion calculation in the Alternative Performance Measures, certain note numbers from note 19 onwards, as well as deletion of references in notes to the Company Balance Sheet that is not presented in the RNS. The cash conversion figure has also been updated in the highlights section.

The rest of the final results announcement remains unchanged. The errors have been corrected in the final results for the year ended 31 December 2018 set out below.

8 April 2019

Keywords Studios plc ("Keywords", "the Group")

Full year results for the year to 31 December 2018

A strong performance and further expansion of new and existing services

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 2018.

Financial overview:

- Group revenue increased by 66% to €250.8m (2017: €151.4m)
  - On a Constant Currency[1] basis, revenue grew to €258.6m (2017: €151.4m)
- Gross margin increased to 38.2% (2017: 36.4%)
- Adjusted profit before tax[2] increased by 65% to €37.9m (2017: €23.0m)
- Adjusted basic earnings per share[2] up by 53% to 47.75c (2017: 31.18c)
- Return on capital employed (ROCE)[3] of 19.4% (2017: 15.8%)
- Cash conversion of 87% (2017: 84%)
- Net debt[4] of €0.4m (2017: €11.1m net cash)
- Final dividend of 1.08p (2017: 0.98p); 10% increase in total dividend to 1.61p per share (2017: 1.46p)

Operational overview:

- 10.1% increase in like-for-like[5] revenue or 14.9% excluding the impact of VMC
- 8 acquisitions in 2018 completed and integrated, expanding new and existing service lines:
  - Integration of VMC across four service lines and five studios completed ahead of schedule, giving us the benefits of scale in North America
  - Significantly expanded our newer engineering service line
  - Added marketing services, music management and predictive analytics to our range of services
- Invested in capacity, adding 930 work stations across multiple studios to support organic growth
- 99 clients now using three or more services, up from 93 in 2017 indicating further cross-selling success
- Keywords Ventures launched to make modest investments in innovations that will benefit our clients

Current trading and outlook:

- An encouraging start to 2019, with the first quarter in line with our expectations
- 2 further acquisitions made in 2019, adding scale in marketing services with Sunny Side Up and user retention and social engagement services with GetSocial
- Significant new business gains including our first key wins in game streaming
- Capital expenditure expected to be lighter in 2019 than in 2018
- Healthy pipeline of acquisition opportunities, with a particular focus on building marketing, engineering and audio services

The business uses a number of adjusted measures that are not defined or recognised under IFRS. For full definitions and *explanations of these measures and a reconciliation to the most directly referenceable IFRS line item, please refer to the end of the statement.*

1 *revenue in 2018 calculated at the currency rates consistent with those that applied in 2017*

2 *before acquisition and integration expenses of €5.6m (2017: €3.0m), share option charges of €4.1m (2017: €1.4m), amortisation of intangibles of €6.9m (2017: €3.0m) and foreign currency exchange gain of €0.8m (2017: loss of €3.6m).*

3 *ROCE represents adjusted profit before tax, including pre-acquisition profit and excluding interest expense, expressed as a percentage of the total capital employed which are both adjusted as if all the acquisitions made during each year were made at the start of that year.*

4 *after payment of €24.9m net cash consideration for acquisitions (2017: €86.8m), €4.5m of acquisition costs and integration expenses (2017: €3.0m).*

5 *like for like revenue at constant exchange rates is calculated by adjusting the prior year revenues comparison by adding pre-acquisition revenues for the corresponding period of ownership in the current year results and applying consistent foreign exchange rates in both years.*

Andrew Day, Chief Executive of Keywords Studios, commented:

"The Group delivered a strong performance in 2018 as we increased our share of the growing video games market and expanded our range of services. This considerable progress has further improved our quality of earnings and moved us higher up the value chain with our customers.

"We have started 2019 promisingly, and we are seeing good overall demand for our services across the Group. We are actively reviewing acquisitions from which we will continue to be selective, with many businesses excited about the strong platform Keywords could potentially provide for their services and people.

"This, combined with the likely increase in demand for content driven by the arrival of games subscription and streaming services from new entrants such as Apple and Google, give us confidence in the outcome for the full year.

"Our strengthened market leadership and breadth and scale of service offering enable us to take advantage of the multiple growth opportunities afforded by a market that continues to grow in size and sophistication."

A presentation of the full year results will be made to analysts at 9.30am today at MHP's offices. There will also be a live, listen only webcast of the presentation and a video recording which will be made available via www.keywordsstudios.com. To register for access or obtain alternative dial in details, please email keywords@mhpc.com or contact Charles Hirst at MHP Communications on +44 20 3128 8193.

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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.

About Keywords Studios (www.keywordsstudios.com)

Keywords Studios is an international technical services provider to the global video games industry. Established in 1998, and now with over 50 facilities in 21 countries strategically located in Asia, the Americas and Europe, it provides integrated art creation, software engineering, testing, localization, audio and customer care services across more than 50 languages and more than 16 games platforms to a blue-chip client base of approximately 850 clients across the globe.

It has a strong market position, providing services to 23 of the top 25 most prominent games companies, including Activision Blizzard, Bandai Namco, Bethesda, Electronic Arts, Konami, Riot

Games, Sony, Square Enix, Supercell, TakeTwo, Epic Games and Ubisoft. Recent titles worked on include Uncharted 4: A Thief's End, Call of Duty: WWII, Mortal Combat X, Assassin's Creed Origins, Battlefield 1, League of Legends, Fortnite, Clash Royale and Rainbow Six Siege. Keywords Studios is listed on AIM, the London Stock Exchange regulated market (KWS.L).

Chairman's Statement

Introduction

2018 was a year of good, and perhaps underappreciated, progress in which we delivered a 65% increase in Adjusted Profit Before Tax to €37.9m (2017: €23.0m) which was within the range of market expectations albeit it was held back by certain project deferrals into 2019 and, unusually for us, bad debts of approximately €1.6m relating to four clients entering insolvency processes, some of which were caused by the 'Fortnite effect' on the industry (as explained in more detail in the Chief Executive's Review).

The 53% increase in Adjusted Basic Earnings Per Share to 47.75c demonstrates how effectively the Company is deploying capital and managing its margins while growing so strongly. This performance was delivered while continuing to develop the Group's strong positioning in the video games market and creating an even better balanced, more diversified business with the addition of several new services including marketing services, music management, sound effects and game and predictive analytics. We also significantly strengthened our relatively new engineering/game development services offering and invested in the expansion of studios which created an additional 930 work stations across Beijing, Chengdu, Katowice, Liverpool, London, Los Angeles, Manila, Milan, Montreal, Seattle and Tokyo. The businesses that have joined the Group through acquisitions have integrated well, embracing the dynamic and self-effacing Keywords culture.

Like-for-Like revenue growth[5] was 10.1%; without the expected drag in the year from the VMC acquisition, Like-for-Like revenue growth would have been 14.9%. However, we are pleased with the overall contribution from VMC which has been significantly earnings enhancing. The Like-for-Like growth reflected good performances across the business although Localization Testing revenues declined unexpectedly at the end of the year as a number of projects slipped into 2019.

[5] *Calculated on the basis that the full year 2017 comparative included all of the 2017 and 2018 acquisitions, as if they had been owned for the same period in 2017 as they have been in 2018 and applying consistent foreign exchange rates in both years.*

Multiple growth opportunities

Overall, Keywords is well positioned to take advantage of the multiple opportunities we see as the video games industry is predicted to continue to grow strongly, at a CAGR of c.9% (source: Newzoo, October 2018), despite the short-term disruption caused by Fortnite last year, and the trend towards outsourcing continues as video games companies aim to avoid substantially increased fixed costs to handle peaks in activity levels. Having extended our service offering further during the year, many of our blue-chip games producers and developer clients now see us as an important and trusted business partner who can bring considerable value to their games' development and creation process.

Importantly, as cloud gaming and other subscription models emerge, we expect to see strong demand for our services to support the significant growth in content that these services will drive.

Our strategic vision hasn't changed since the flotation on AIM in July 2013, and, pleasingly, we are significantly ahead of those early plans both in size and scope. We continue to see plenty of opportunity in the video games market to support our growth both organically and through selective acquisitions and the landscape remains fertile with a number of businesses expressing interest in joining us, so they can participate in Keywords' compelling partnering and growth model.

Managing and funding growth

Keywords' ability to source, execute and integrate acquisitions effectively is a core skill and, as the Group expands, more of the management team are involved in these assimilation processes. We look for a strong cultural fit and focus on the people joining the Group, rather than just seeing it as acquiring businesses, so that we engender a partnership through which both parties work closely together to complement each other.

We are also highly focussed on maintaining the interest, drive and passion of those who join Keywords, to make sure that they are stimulated by new opportunities as part of a much larger organisation without losing their entrepreneurial drive. One of the ways in which we have done this is by strengthening the Group's management team with the highly experienced people we bring in through our acquisitions; this, in combination with developing our existing team, in turn provides further bandwidth across the management team to support the ongoing growth of the business.

The funding of our acquisitions is achieved both by cash generated organically and through bank facilities. We are continuously improving our profit-to-cash conversion, assisted by the streamlining of our banking arrangements around the Group and are working towards centralised cash pooling and regular draw-downs as standard within the treasury function. The increase in our bank facilities to up to €105m, which we secured during the year, gives us good headroom and demonstrates the strong support we enjoy from our banks for our growth strategy, given the strength of our financial performance and the recurring nature of many of the revenues.

As we grow, we have continued to develop our business processes and strengthen our governance practices. We have had a particular focus in 2018 on developing our operating and financial systems in order to enhance the management information available and streamline our reporting processes further; this remains work in progress. We have also improved our governance procedures with the adoption of the Quoted Companies Association code, as outlined in further detail later in the Annual Report. Ensuring we have the best internal systems and controls, as well as more integrated and efficient processes with our clients, will remain a focus in 2019.

People

The progress of Keywords and its successful transition from being a small company with two service lines into what it is today is a credit not just to the top team, but to everyone throughout the organisation for their part in making it happen. On behalf of the Board, I would like to thank all of the team for their strong contributions.

The whole executive team led by CEO Andrew Day, has worked impressively and performed well during the year. The team is operating in an industry that is not only fast growing but is a leading technological innovator in interactive technology; that Keywords is now a respected provider of services and increasingly of technical innovations shows how much we have become a key partner to our customers, despite most being many times our size.

Dividend

The Board is pleased to recommend a final dividend of 1.08p per share which, following the interim dividend of 0.53p per share will make a total dividend for the year ending 31 December 2018 of 1.61p per share. This reflects an increase of 10% compared to 1.46p for 2017 and is consistent with our progressive dividend policy whilst retaining sufficient resources to fund our future growth. Subject to shareholder approval at the Group's AGM, the dividend will be paid on 21 June 2019, to shareholders on the register on 31 May 2019.

Current Trading and Outlook

We have started 2019 promisingly. In a year in which the games industry is likely to see some changes with the arrival of games subscription and streaming services from new entrants like Apple and Google, we feel well placed to benefit from the likely increased demand for content.

The considerable progress we made in 2018 has improved our quality of earnings and moved us higher up the value chain. Accordingly, as we continue to strengthen our market leadership and the breadth and scale of our service offering, we are well placed to take advantage of the multiple growth opportunities afforded by a market that is growing in size and sophistication.

Ross Graham
Chairman

Strategic Report and Chief Executive's Review

Well placed to benefit from the growth in content that will be driven by streaming games and next generation consoles

The Group produced another good performance during the year, albeit its growth was slightly held back by the anticipated low growth of VMC combined with the 'Fortnite effect' and, late in the year, certain unforeseen project delays and cancellations (both explained in more detail in the organic growth and investment section of this review). Despite these reverses, the underlying performance of all but one of the seven service lines has been strong. The exception was Localization Testing where we were particularly impacted by delays at the tail end of 2018 some of which we are now working on in 2019. Overall, we continued to increase our share of the growing video games market, with customers attracted by our ability to flexibly deliver high quality services, across an increased and unrivalled range of services and geographies. The addition of music management and sound effects, marketing services and data analytics through acquisitions in the year will further extend relationships with our clients.

Delivering on our strategy

Our strategy of building the world's leading technical and creative services platform for the video games market and beyond continues to yield rapid, synergistic growth.

Operating globally across the lifecycle of video games, we continue to benefit from the major structural drivers of a growing industry, combined with a trend towards the outsourcing of services to create, test, market, internationalise and support interactive content. The video games services market remains highly fragmented despite the scale and global nature of the major video games publishers and developers. We continue to believe that the services provision market needs to consolidate further in order to support the needs of game publishers and developers who are grappling with the challenges of producing more extensive content whilst meeting demands for higher quality. This includes the provision and support of this content in more markets, across more devices and delivered in a range of formats - which looks set to extend to cloud-based delivery in 2019 and beyond. The ability and flexibility to expand team sizes and to turn to specialists who are available as needed is essential for publishers looking to satisfy these demands rapidly, thus making outsourced and embedded services ever more attractive.

During 2018 we successfully acquired and integrated eight companies, investing €33.1m in cash (gross) and €27.3m in deferred cash and in shares. These businesses extended our services into new areas such as marketing services, music management and predictive analytics and significantly strengthened our existing service lines including a considerable scaling up of our newer Engineering Service line.

In particular, our entry into the design and production of trailers used to promote games has added a new pillar for growth through the acquisition of Fire Without Smoke and The TrailerFarm. In the first few days of 2019, we also completed the acquisition of our third company in marketing services, Sunny Side Up, and we hope to add further scale to this activity to turn it into our eighth service line.

We added Snowed In and, more substantially, Studio Gobo and Electric Square to our Engineering Service line which had been significantly enhanced by the acquisition of Sperasoft in the last weeks of 2017. Following these acquisitions, this service line generates annualised revenues of c. €35.8m, demonstrating that we have been able to build a service line of scale that is now the fourth largest of our seven service lines, in a very short space of time. We are continuing to review further acquisitions in this area of our business while we further integrate the six studios that currently comprise the service line.

Our recent acquisitions of Yokozuna Data and GetSocial have brought back-end gaming platforms and underlying analytics to the Group to help games companies keep gamers in their game for longer and improve their monetisation of the games. Whilst these acquisitions are not currently earnings enhancing, we believe that they can be developed into valuable additional technologies and services for clients and, therefore, additional revenue generators.

In our Audio Service Line, we extended our service offering outside our traditional localised voice-over services, a field in which we lead the video games industry, to music management, sound effects and sound design and original language voice production through the acquisition of Cord and Laced, the hiring of a complete team in SoundLab and the acquisition of Blindlight. This broadened scope of services has already led to synergies and cross selling successes within the service line and with other service lines.

The Group has now fully integrated VMC, which was acquired in October 2017 for $66.4m (€57.9m). This very thorough integration exercise across four service lines and five studio locations was completed ahead of schedule. As a result, VMC has contributed significantly to the Group's achievement of a 15.1% operating margin, despite the pre-acquisition operating margin of VMC having been about 9%. Although initially a drag on revenue growth (as expected), it has given us the benefits of real scale in certain service lines in North America, where we are seeing growing demand, and it is significantly earnings enhancing.

Keywords Ventures

In July 2018, we launched Keywords Ventures ("KWV") to make modest investments in companies with innovative technologies and services that will benefit our clients and where we can help commercialise those products and services through access to our global platform, relationships and funding. We would not expect our annual investment in KWV to exceed 5% of our annual spend on acquisitions. Our first investment was for £300,000, in a Series A funding for up to a

45% shareholding in a pre-revenue company, AppSecTest Ltd, which has created AS Analyser, a cloud based automatic testing solution that analyses apps and mobile games for compliance with the GDPR, and which launched in late 2018.

Organic growth and investment

We have continued to deliver organic growth, having achieved a 10.1% increase in Like-for-Like revenue at constant exchange rates in 2018 During 2018, our Like-for-Like revenue growth on this basis was negatively affected by two principal factors including the contribution from VMC where revenue declined in the year, as anticipated, and due to what we have labelled as the 'Fortnite effect'.

The phenomenally successful Fortnite game attracted some 200 million players during the course of the year and in so doing disrupted other games which we support, although we ourselves now do a considerable amount of work on Fortnite. In some of those cases, the competitive effect and loss of player base was material enough for clients to reduce their spending on supporting games, to terminate games and, while it may not be the only contributing factor, a few companies ceased trading altogether (or went into insolvency processes), including Telltale and Starbreeze. Localization was the service line most affected by the 'Fortnite Effect'.

The drag on the Group's revenue growth by VMC primarily affected Functional Testing, Player Support and, to a lesser extent, Localization Testing. However, having now fully integrated VMC, we expect it to contribute to revenue growth and good margins in those divisions incrementally during 2019.

Due to these impacts, the headline growth per service line in some instances masks the underlying trends but we have attempted to provide those underlying trends, alongside the reported numbers, in the service line review section below.

We continue to make good progress in cross selling our services into our client base. For the 12-month period under review we increased the number of clients using three or more of our services to 99 clients in 2018 from 93 clients in 2017.

The investment programmes in the existing businesses that we began in late 2017 were successfully completed in 2018 and resulted in increased capacity to support the organic growth of the business. The additional work stations created are being well utilised already and have helped to support our organic growth during the year. We expect to further increase our available work space in certain locations in 2019 but anticipate the level of investment returning to the ordinary course of business, in contrast to 2017 to 2018 when the demand pressures for space came together in many geographies and service lines.

While we successfully consolidated some locations during the year, the results of organic and acquisition led expansion meant we finished the year with 52 operating units in 21 countries up from 42 and 20 respectively in 2017.

Service line review

Revenue Mix €'000	**Year ended 31-Dec-18**	**Year ended 31-Dec-18**	**Year ended 31-Dec-17**	**Year ended 31-Dec-17**
Art Creation	41,688	16.6%	26,193	17.3%
Engineering	26,161	10.4%	3,572	2.4%
Audio	34,190	13.6%	20,657	13.6%
Functional Testing	49,128	19.6%	30,033	19.8%
Localization	43,983	17.6%	41,959	27.7%
Localization Testing	19,751	7.9%	19,848	13.1%
Player Support	35,904	14.3%	9,168	6.1%
Total	**250,805**	**100%**	**151,430**	**100%**

As the Group made a number of acquisitions during the year, the following table also provides an overview of revenues on a Pro Forma basis, which includes the annualised sales of all acquisitions made in each year, in order to provide a better overview of the size and balance of the business at the end of each year. The service line commentary which follows reports on the statutory revenues unless otherwise stated.

Proforma Revenue Mix €'000	Year ended 31-Dec-18	Year ended 31-Dec-18	Year ended 31-Dec-17	Year ended 31-Dec-17
Art Creation	43,978	16.6%	36,239	16.4%
Engineering	35,803	13.5%	17,059	7.7%
Audio	36,897	13.9%	24,573	11.1%
Functional Testing	49,128	18.5%	48,183	21.8%
Localization	43,984	16.6%	43,323	19.6%
Localization Testing	19,751	7.4%	22,717	10.3%
Player Support	35,904	13.5%	28,626	13.0%
Total	**265,445**	**100%**	**220,720**	**100%**

Art Creation (16.6% of Group revenues for the year)

This service line creates video game graphical art, including concept art, 2D and 3D art asset production & animation and provides marketing services including game trailers, marketing art and materials.

Headed by Ashley Liu, based in Beijing, Art Creation services revenue grew 59.2% to €41.7m (2017: €26.2.m) reflecting full year contributions from the 2017 acquisitions, SPOV, Red Hot and part of Sperasoft, and, since May and September 2018, the contributions from the acquisitions of Fire Without Smoke and The TrailerFarm respectively.

On a Like-for-Like basis, Art Creation grew by 11.9% year-on-year, having benefited from our investment in expanded capacity in late 2017 and into 2018 which enabled it to meet more of the demand for its services. In addition, increasing integration across a greater number of studios in the art service line has enabled us to take on and deliver work that we would not otherwise have been able to service.

During the year we added marketing services, including the production of game trailers and marketing art and materials, to the range of services Art Creation is able to offer through the acquisitions of Fire Without Smoke and The TrailerFarm. Just after the year end, Sunny Side Up, another game trailer and marketing services business joined the Group through acquisition. We are continuing to review other acquisition opportunities in this area and may establish a separate services line to house these activities once it reaches the requisite scale.

Engineering (10.4% of Group revenue for the year)

Engineering provides software engineering, porting to different platforms and game development services to publishers and developers as well as access to exclusive technology platforms and data analytics. It works with its clients in a number of engagement models from the provision of trouble shooting services, team augmentation, game porting to different target platforms, co-development, full game development services and the provision of live game operations services.

The Engineering service line which only started in 2017 has grown to represent around 13.5% of Group revenues on a proforma basis in 2018. Principally due to acquisitions made in the year its revenues grew seven-fold to €26.1m (2017: €3.6m) reflecting full year contributions from Gamesim, d3t and Sperasoft which were acquired during 2017, while Snowed In, and Studio Gobo and Electric Square have contributed since July and August 2018, respectively. Jamie Campbell, formerly CEO of d3t, assumed responsibility for this service line in July 2018.

On a Like-for-Like basis, its revenues grew by 23.3%. We now have a 333-strong team which is currently working on some very high-profile titles for some leading game developers and publishers and we were able to announce projects we had delivered in 2018 including significant work on Shenmue I & II for Sega; Assassin's Creed Odyssey, Rainbow Six: Siege, and For Honor for Ubisoft; and Miami Street for Microsoft. While this service line is more project based and exhibits a lumpier revenue profile than the rest of the Keywords business, it is important for the Group as it is highly valued by our customers and ensures we are even more integrated with their development life cycles, often at an earlier stage. It is also expected to see significant demand as customers increasingly port games content to cloud gaming platforms for streaming. We are, therefore, actively assessing further acquisition opportunities in this area and as we build its scale, we expect to achieve smoother and more predictable revenues for this service line.

Audio (13.6% of Group revenue for the year)

Our Audio service line provides multi-language voiceover recording, original language voice production, Hollywood production, and music and related services.

It increased revenues by 65% to €34.2m (2017: €20.7m) including full year contributions from our 2017 acquisitions in Paris (La Marque Rose, Around the Word, Dune Sound and asrec) and of Lola, and contributions from Cord and Laced, and Blindlight since they were acquired in April and June 2018 respectively.

On a Like-for-Like basis, revenues in our Audio service line grew by 9.8%. This was achieved despite the collapse of two companies which were important clients for the service line and certain unexpected delays and scale backs in projects, all of which can in part be attributed to the 'Fortnite effect'. It reflects the benefits of our previous investments in our Audio service line, including new studios in Tokyo and London.

Our search for suitable premises in which to co-locate our four voice recording businesses in Paris is continuing but our continued focus on ensuring the premises are suitable and good value means it is taking longer than previously envisaged to achieve this goal. In the meantime, these businesses are operating well from their existing studio locations under common management and reporting.

Led by Andrea Ballista, based in Milan, Italy, our Audio business extended its services offering into sound design, music management and original language voice recording (principally in Hollywood) during 2018 and these new services are showing good promise in their own right, in addition to bringing cross selling benefits to the Group. Games music is a niche but growing market and one example of our success in this area is that our games music record label, Laced Records, saw strong forward orders for its four-vinyl album of the music from Doom. As another example, Cord managed all the music elements for a highly anticipated upcoming game, in which it arranged the composition of music and the licensing of previously published tracks on behalf of the developer.

Our audio studio in Tokyo, which we opened in 2017, had a good first full year of operations and has benefitted from a recently strengthened team in preparation for an even busier 2019, and our new, larger studios in London are enabling us to meet the strong demand for their services.

Functional Testing (19.6% of Group revenue for the year)

Functional Testing provides quality assurance, including discovery and documentation of game defects and testing to verify the game's compliance with hardware manufacturers' and app stores' specifications, as well as focus group and user experience testing and consulting.

Our Functional Testing service line grew by 64% to €49.1m (2017: €30.0m), including a full year's contribution from VMC which was acquired in October 2017. The service line also grew by 6.4% on a Like-for-Like basis despite the anticipated drag from the inclusion of c. 52% of VMC revenues (at the time of acquisition) falling within Functional Testing. Excluding VMC, we estimate that this Like-for-Like growth would have been 26.5% as our functional testing business in North America has become the "go to" provider.

The service line management team led by Mathieu Lachance, who is based in Montreal, Canada, have done well in integrating the VMC business, having consolidated their facilities, improved the processes in the business and implemented common tools such that there is now no discernible difference between what was VMC and what is the larger Keywords team today. We expect the functional testing activities of VMC to grow at the same rate as the underlying service line in 2019 and beyond. The VMC brand along with that of Babel has been replaced by the Keywords name to reflect this complete integration. Enzyme Testing labs continues to have its own branding for now, although this may be rebranded during 2019.

Localization (17.6% of Group revenue in the year)

Localization provides translations of in-game text, audio scripts, cultural and local adaption, accreditation, packaging and marketing materials in over 50 languages.

Our Localization activities increased revenues by 5% to €44.0m (2017: €42.0m). Like-for-Like revenues grew by 3.5% despite suffering a significant impact from clients reducing support for some of their games, which we believe was in large part due to the 'Fortnite effect'. In particular, one client who was the top ranked client by revenue for this service line in 2017 reduced its spend substantially compared to the prior year and our expectations, leaving the Localization service line to make up a c.€6m deficit.

During the year, the Localization service line, led by Fabio Minazzi in Milan, continued to invest in new functionality and the scalability of our proprietary "BPS" operating platform and worked with our suppliers of translation memory systems to increase the robustness of these solutions to support the ever-increasing workloads we are putting through them. We have continued to explore machine translation solutions and while we have found few opportunities for the use of this technology in video games localization so far, we will none-the-less be more active in building this capability into our workflows during 2019. Our XLOC globalization content management product progressed further in 2018 and we recently launched XLOC 6.2 with more developer file formats supported and new user interfaces, including in both Chinese and Japanese, making it the only product of this kind available for Asian developers.

Localization Testing (7.9% of Group revenue for the year)

Localization Testing tests for out of context translations, truncations, overlaps, spelling, grammar, age rating issues, geopolitical and cultural sensitivities and console manufacturer compliance requirements in over 30 languages using native speakers.

Our Localization Testing operations maintained revenues at €19.8m (2017: €19.8m) helped by the full year contribution from VMC. On Like-for-Like-basis however, its revenues declined by 10.6%.

This performance in part reflects VMC's inclusion (if VMC were excluded, Like-for-Like sales would have declined 8.7%), but the key impact was from some important titles, that were expected to come in for testing in the last two months of the year, being delayed to Q1 2019. Consequentially, the service line has started strongly in the first months of 2019.

In addition, we anticipate that longer sales cycles, as we have concentrated more effort on multi service line strategic client relationships, should bear fruit in 2019 and the management team, led by Thomas Barth from Dublin, Ireland, are continuing to focus on quality and cost efficiencies. In line with this focus, they are exploring the option of establishing a localization testing operation in Katowice, Poland, leveraging the management, personnel and facilities infrastructure created there by the Player Support Group to access the local, high calibre, yet good value talent.

Player Support (14.3% of Group revenue for the year)

Player Support provides 365/24/7, multilingual support for gamers when games are in live operation, forum monitoring and moderation services and social media engagement on behalf of the game brand.

Revenues for this service line, which benefitted significantly from a full year contribution from VMC, almost quadrupled to €35.9m (2017: €9.2m). The VMC business reduced the Like-for-Like growth of the business, as expected. Without VMC Like-for-Like growth would have been 94.1%, rather than 30.8% including the effect of VMC.

This excellent underlying performance led by Frederic Arens, who moved from Montreal to our Tokyo studio during the year, was driven by organic expansion, including the opening of a new support centre in Katowice, Poland, making use of the nearby presence of Sperasoft in Krakow. This facility now employs 200 people having commenced in June 2018. Our Manila operation has also continued to grow strongly and now has 700 employees, double the number in the prior year. Player support is planning for a year of consolidation in 2019, after the exceptional growth in 2018. The Player Support operations assumed from VMC are being stabilised, although some further attrition is expected in 2019, and we expect it to return to growth by next year.

Managing growth and developing our people

In July 2018, we strengthened the senior management team with the promotions of Igor Efremov, previously from Sperasoft, and Jamie Campbell, previously with d3t, to the roles of Chief Commercial Officer and Service Line Director, Engineering respectively. In addition, we appointed Andrew Brown, whose background is in marketing at Danone, Coca Cola, Johnston & Johnston and Activision, to the role of Chief Marketing Officer.

The Group employed an average of 5,238 people in 2018 (2017: 3,167). Of these around 1,100 are flexibly resourced positions, most notably in our testing businesses, which enables us to scale up and down with the demands of the projects. Across our three regions of the Americas, Europe and Asia, we employed an average of 2,056, 1,267 and 1,915 respectively. By function, these 5,238 positions break down in to 1,199 artists, 333 engineers/software developers, 1,615 testers and test engineers, 1,113 player support agents, 165 internal linguists, 100 audio engineers, and 255 project managers and supervisors. We also have 458 people in our support functions, including in finance/accounting, HR, IT, facilities, administration, and general management. Our increasingly broad and deep pool of highly experienced and games-passionate co-workers provide a tremendous resource that our clients can access as needed in order to get their content developed, localised, marketed and supported in live operations, in a flexible and cost-efficient manner across the globe and in appropriate time zones.

While we continue to develop our own tools to improve productivity and to use best of breed solutions where we can in our business, talent remains by far our most important asset. There is always more to do in investing in our people, but we continue to make improvements with training, benefit schemes, career planning and we monitor ourselves in line with our policies of non-discrimination, to ensure we are providing equal opportunities.

We are particularly proud and protective of our culture. It acts as the glue that binds our co-workers around the world together. Empowered, relaxed, professional and humble with a focus on doing the very best we can for each project entrusted to us, this culture creates an environment in which games-passionate individuals can work as an extension of our client's organisations together with like-minded colleagues, while enjoying the opportunity to collaborate on most of the world's leading games ahead of their release.

We are an increasingly attractive employer for many in the wider games industry, as we offer the opportunity for individuals to work on around 250 leading games at any time or over 600 throughout the year, giving them an excellent and sustainable variety of work as well as good career advancement and opportunities to work in many different locations. We are proud of and aim to develop and retain our home-grown talent, but we are equally proud that a healthy proportion of our colleagues have, and will, go on to work in games publishing and development within our clients' organisations, creating a Keywords' alumnus which is helpful to both us and the games industry in general.

Our acquisition programme also brings fresh talent to the Group at all levels and we continue to be successful at integrating our businesses, including providing opportunities for our staff and colleagues to move between our various studios and the countries in which we operate. Our senior leadership team, which comprises four people from the original Keywords business, ten people from acquired entities as well as six externally hired employees is itself testament to the opportunities provided across the Group and our ability to complement the leadership team with talented individuals from acquired companies.

We continue to see demand for our services from outside of the games industry due to the specific expertise we have in interactive content development, testing and support. Working on different forms of content can help to further expand the horizons of our colleagues as they get the opportunity to tackle challenges in new but related fields such as film and TV, retail, education, automotive, advertising, architecture, urban planning, theme parks and interactive experiences. In time, we intend to more proactively target expansion into some of these adjacent market sectors, building on the experience we are already gaining.

Current video games market trends

Bursting onto the scene in the last months of 2018 has been the promise of streaming of video games or cloud-based gaming. While earlier attempts from companies like OnLive and Gaikai stalled in the earlier part of this decade, Google has now entered the market with its newly launched Stadia streaming service and Microsoft has indicated its plans for its games streaming project, codenamed xCloud, to provide streaming access to over 3,000 current Xbox titles, supported by its Azure cloud infrastructure of 54 data centres serving 140 countries. Apple also announced in March 2019 its Arcade subscription-based gaming service which, although not a streaming platform per se, does provider gamers with access to many games through this new subscription platform.

The promise of these subscription platforms providing easy, mostly device independent access, to play video games anywhere in the world is compelling and, if successful, will be a major opportunity for new entrants (such as Google and Apple) and for potentially new monetisation models. As the music and film and TV industries have experienced when moving towards streaming services, we expect to see an increased demand for content as these streaming platforms compete to become the "Netflix of games" and endeavour to host the most and the best content to attract and retain their player bases. While we can't rule out some short-term disruption from this development, we believe that Keywords is well placed to benefit from this trend as games are repurposed to run well on the new streaming platforms and new content is created that best fits their capabilities. Keywords started working on a number of projects directly related to video game streaming in the second half of 2018 and we have further increased our exposure in the first months of this year, with a number of services being provided and discussions ongoing with existing and potential clients about how we might support future projects.

Few industry observers expect these developments in cloud-based gaming to displace the video game consoles and PCs, on which so many games are played, in the short term. This is expected to change as internet bandwidth improves around the world and latency issues are overcome. The current generation of Sony and Microsoft devices launched in November 2013 have been refreshed since but there is now speculation over a new generation of Xbox and PlayStation consoles which could launch over the next two years. This would represent another milestone for the games industry and one from which we believe Keywords is well placed to benefit. At the time of the last launch, there was a sudden switch of investment by publishers and developers away from the previous generation of games. This time, given that games as a service is such a feature of games now, we expect to see the current generation of games continue to be supported while new games are developed that take advantage of the enhanced capabilities of the new consoles.

The astounding success of Fortnite and, to a lesser extent, Player Unknown Battleground ("PUBG"), has been a disruptor in the market in 2018, helping to attract new video gamers to the market while also outcompeting other games. While we expect the success of both to continue, we think the market is more settled now with Fortnite, PUBG and more latterly, Apex Legends an integral part of it.

The mobile games sector continues to grow faster than other platform types, with much of this growth originating in Asia. Keywords is proud to be supporting many of the world's leading mobile games and, as the quality, complexity and scale of individual mobile games grows, this benefits Keywords as the skills, scale and global reach of all its services from development to player support become more relevant to them.

MagicLeap released their much-anticipated augmented reality headset for use commercially in August, albeit it was restricted to the US. Microsoft have confirmed that their HoloLens 2 augmented reality headset will be launched later this year but augmented reality, much like virtual reality, is showing signs of slower adoption in the games industry than many had thought a few years ago. Keywords does work extensively on VR content (games and non-games) as well as AR but we don't anticipate these being major growth drivers in 2019.

eSports continues to develop strongly, and we increased our exposure to this market in a small way through our entry into marketing services with the acquisitions of Fire Without Smoke, The TrailerFarm and Sunny Side Up. We continue to seek out ways in which we can participate in this segment in a more meaningful manner.

Also, of note has been Epic Games (publisher of Fortnite) move into providing the market with a lower cost route of getting games to market than the established platforms such as Steam. If game developers and publishers reduce their costs of distribution and increase their margins as a result, this may translate into higher spend on content creation, marketing and support which will benefit Keywords.

Service provider market

The service provider market remains highly fragmented and, in addition to the continued growth in our end market driving demand, we continued to see a trend to outsourcing across all our service lines, with Art Creation, Functional Testing and Engineering likely to benefit more given the high proportion of this type of work that remains in house. In addition, we hope to further increase market share and benefit from our larger scale as we further consolidate our market.

Outlook

We have had an encouraging start to 2019, with trading for the first quarter being in line with our expectations. Some important new business wins, including in the game streaming space, and good overall demand for our services across the Group give us confidence in the outcome for the full year.

We expect 2019 to be lighter in capital expenditure than 2018, although we won't hesitate to invest in growth and enabling technologies as the opportunities arise and as we see the business requiring more space, people, tools, and systems.

Whilst we are listed in the UK, only a relatively small proportion of our business is in the UK where we now employ a total of 317 people. As a highly international diversified business that operates in a very global market we, therefore, do not expect Brexit to have a material impact on the business.

Our acquisition program is continuing at pace, with a particular focus on building up our marketing, engineering and audio services. Having completed the acquisition of Sunny Side Up in early January, we announced in February 2019 that we had acquired GetSocial, which brings to the Group leading edge technology which drives user engagement, retention, acquisition and monetisation through social interactions of players within the game. We are actively reviewing a healthy pipeline of acquisition opportunities from which we will continue to be selective, with many businesses excited about the strong platform Keywords could potentially provide for their services and people.

Our Keywords Ventures arm has an active pipeline of investment opportunities in areas that would benefit our video game client base and beyond. The application of artificial intelligence and machine learning to the video games space is interesting and a number of these opportunities lie in this general arena. We see potential to leverage the latest technologies and big data expertise to provide services to our clients which help them better understand and influence player behaviour, so they can attract players more cost effectively, retain them for longer and better monetise players while, at the same time, fine tuning and improving the game experience for players.

As a more diversified, better balanced business with significantly expanded range of services to offer our clients, we look forward to developing our relationships with our clients through increased integration of services, the development of more strategic client relationships, across multiple services, and through the provision of dedicated outsourced or embedded services.

Andrew Day
Group Chief Executive Officer

Financial and Operating Review

Strong results driven by good organic growth complemented by acquisitions

Group performance

2018 has seen the Group deliver another year of significant increases in revenue, profit and underlying cash generation driven by strong organic growth, substantially complemented by acquisitions which have further extended its service offering, market penetration and geographic reach.

Revenue

Revenue for 2018 was up 66% at €250.8m (2017: €151.4m). Overall six of the seven service lines grew, with Engineering and Player Support being particularly strong. This growth was generated through a combination of both organic and acquisitive growth. On a Constant Currency basis, revenue grew to €258.6m (2017: €151.4m). The Like-for-Like revenue growth rate was 10.1% for the year, down from 15% in 2017 due to the onboarding of the VMC business. Excluding VMC, the Like-for-Like revenue growth rate, was 15%, which was in line with our expectations and a strong growth rate from a larger base.

Gross margin

Gross profit for the year was €95.8m (2017: €55.1m). The gross margin percentage increased to 38.2% (2017: 36.4%).

EBITDA

EBITDA for the year was €34.3m (2017: €21.9m). 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 2018, Adjusted EBITDA increased 66% to €43.7m compared with €26.3m for 2017. As a percentage of revenue, Adjusted EBITDA has been maintained at 17.4% compared to 17.4% for 2017.

Adjusted Operating Costs, which excludes depreciation, increased by €23.2m to €52m (2017: €28.8m) mainly as a result of the acquisitions made in 2017 and during the year. The continued additional investment in strengthening Keywords' management to successfully manage the growth of the Group also contributed. These costs increased from 19.0% to 20.7% of revenue.

Net finance costs

During 2018, there was a net finance cost of €0.5m compared to a cost of €4.4m in 2017 primarily due to the impact of foreign exchange gains of €0.8m (2017: loss of €3.6m). The foreign exchange movements were largely due to the effect of translating net current assets held in foreign currencies. The interest expense of €0.5m (2017: €0.3m) related partly to the syndicated revolving credit facility ("RCF") of up to €105m over a three-year period of which €40m was drawn down at the year end.

Profit before taxation

Profit before tax for the year was €22.1m (2017: €12.0m). Adjusted Profit Before Tax is used by the Board to measure the more meaningful underlying profit generation of the Group. This measure adds back one-time expenses, including acquisition and integration expenses of €5.6m (2017: €3.0m), share option charges of €4.1m (2017: €1.4m), foreign currency exchange gains or losses of €0.8m (2017: loss of €3.6m), and amortisation of intangibles of €6.9m (2017: €3.0m) to the statutory profit before tax. As a result, Adjusted Profit Before Tax for 2018 increased by 65% to €37.9m compared with €23.0m in 2017.

Revenue mix

Revenues increased across six of our seven lines of business in 2018, staying constant in Localization Testing, resulting in our seven service lines accounting for the following proportion of Group sales in the year on a statutory and pro forma basis*:

Revenue mix %	**Revenue Year ended 31-Dec-18 %**	**Revenue Year ended 31-Dec-17 %**	**Proforma* revenue for the Year ended 31-Dec-18 %**
Art Creation	16.6	17.3	16.6
Engineering	10.4	2.4	13.5
Audio	13.6	13.6	13.9
Functional Testing	19.6	19.8	18.5
Localization	17.6	27.7	16.6
Localization Testing	7.9	13.1	7.4
Customer Support	14.3	6.1	13.5
Total	**100.0**	**100.0**	**100.0**

* Pro forma includes the annualised sales of all acquisitions made in 2018 in order to give a better overview of the balance of the business at the start of 2019. Total pro forma revenue for 2018 on this basis was €265.4m (2017: €220.7m).

Following acquisitions made in late 2017 and through 2018, the proportion of the Group's revenues denominated in US Dollars is running at around 49%, while those in Euros and Canadian Dollars are around 22% and 16% respectively. The UK has grown in importance to the Group as a result of our investments in the more technical and creative areas of our business, resulting in annualised revenues denominated in Sterling of approximately 9%.

Taxation

The Group's effective tax rate has decreased again in 2018. We continue to make steady progress in making better use of our Ireland-based operational headquarters in contracting and treasury management such that we expect our effective tax rate to continue to reduce despite our exposure to higher tax jurisdictions in most of the territories we operate in. The Group's adjusted effective tax rate, based on the Adjusted measure of Profit Before Taxation in the period (as set out in the financial overview above), was 19.0% (2017: 20.5%).

Basic earnings per share

Basic earnings per share based on the statutory profit after tax was 23.16c (2017: 12.37c). 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 by 53% to 47.8c compared with 31.2c for 2017.

Cash flow and debt

The Group generated operating cash flow of €32.2m for the year, up from €16.7m in 2017.

During the year the Group also received multi-media tax credits ("MMTCs") in Quebec of €10.9m (2017: €3.4m). MMTCs in relation to VMC for the years 2015 to 2017 were collected in 2018 and the total MMTC accrual amounted to €9.2m as at 31 December 2018 (2017: €10.0m).

The Group made eight acquisitions to strengthen the business during the year with a related net cash outflow on consideration payments of €24.1m, and an additional €4.5m in acquisition and integration cash outlay.

Investment in fixed assets amounted to €9.4m (2017: €3.8m) reflecting the ongoing costs of IT across larger staff numbers and cost of further increasing the capacity of the Montreal, Tokyo and Manila studios, and improvements to both the Dublin and London studios. Additionally, there were ongoing purchases of games development and testing equipment.

Following the investment of €24.1m net cash consideration for acquisitions in 2018, cash and cash equivalents increased to €39.9m from €30.4m. The loans and borrowings were €40.3m at 31 December 2018 (2017: €19.3m) having utilised €40m of its €75m revolving credit facility, giving a net debt position of €0.4m (2017: €11.1m net cash).

Capital Structure and Group Financing

The Keywords Group funds itself primarily through cash generation and a syndicated revolving credit facility. The bank debt facility is a €75m RCF, with an option to increase this to €105m. The Keywords Group had €40m drawn from the RCF at year-end 2018. The RCF matures in June 2021 and has an option to extend it for up to a further 2 years.

As at 31st December 2018, the Group had available cash balances and undrawn facilities which, aggregated, were c. €75M. These available funds and ongoing cash generation from activities provide appropriate operational headroom and available funding for strategic purposes.

Key Financial Covenants

The majority of Group borrowings are subject to financial covenants that are calculated in accordance with the facility agreement:

- Leverage: A maximum Total Net Borrowings to Adjusted EBITDA ratio of 3 times; and
- Interest Cover: A minimum Adjusted Operating Profit to Net Finance Costs ratio of 4 times.

The Group's performance against these covenants is the current and comparative year is set out below:

	Covenant	2018 Times	2017 Times
Leverage	Maximum 3.0	0.19	-0.47
Interest Cover	Minimum 4.0	40.29	40

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 mainly relate to the effect of translating net current assets held in foreign currencies.

Dividend

The Group 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 0.53p per share in October 2018, the Board has recommended a final dividend of 1.08p per share, which will make the total dividend for the year ending 31 December 2018, 1.61p per share, a 10% increase over 2017. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 21 June 2019 to all shareholders on the register at 31 May 2019 and the shares will trade ex-dividend on 30 May 2019. The cash cost of the final proposed dividend will be an estimated €0.8m, subject to currency fluctuations.

Review of distributable reserves and rectification of prior dividends

The Board has identified technical breaches in respect of certain interim and final dividends having been declared and paid otherwise than in accordance with the requirements of the Companies Act 2006 (the "Act").

The Company has previously declared final dividends and certain interim dividends relating to the financial years 2014 to 2016 without having had sufficient distributable reserves in the holding company as required by the Companies Act 2016 due to a failure to make the necessary upstream distributions from subsidiaries to the Company despite such reserves being available. This was recognised during 2017 and a major distribution exercise was undertaken to rectify the problem.

In addition to the above, no interim accounts were filed at Companies House prior to the payment of interim dividends previously paid by the Company in the years 2013 to 2018. This was identified by the Board in August 2018 and legal advice obtained.

It is important to make clear that no party has been or is in a worse position as a result of these oversights.

The Company is seeking authority to release all relevant parties from any potential liability via a specific shareholder resolution to be put to the shareholders at the 2019 AGM. Accordingly, the appropriate resolution, if passed, will authorise the Company to enter into deeds of release to put all relevant parties in the position in which they were always intended to be had the relevant dividends been made in accordance with the Act.

Full details, including the form of the deeds of the release, will be included in the circular and notice of the 2019 AGM to be sent to shareholders. For the avoidance of doubt, procedures are now in place to ensure that this does not happen again in the future.

Events after the reporting period

On 3 January 2019, we announced that the Group acquired Sunny Side Up Creative Inc in Canada for a total consideration of CAD 5.9m comprised of an initial cash consideration of CAD 4.75m on completion and the issue of 60,179 ordinary shares in Keywords. Sunny Side Up generated Adjusted EBITDA of CAD 1.2m in the year to September 2018.

On 21 February 2019, we announced that the Group acquired GetSocial B.V. in Netherlands for a total consideration of €0.2m.

David Broderick, FCCA
Chief Financial Officer

Consolidated Statement of Comprehensive Income

		Years ended 31 December	
		2018	2017
	Note	**€'000**	€'000
Revenue from contracts with customers	4	**250,805**	151,430
Cost of sales	5	**(154,997)**	(96,345)
Gross profit		**95,808**	55,085
Share option expense	17	**(4,129)**	(1,426)
Costs of acquisition and integration	5	**(5,296)**	(3,016)
Amortisation of intangible assets	12	**(6,872)**	(3,038)
Total of items excluded from adjusted profit measures		**(16,297)**	(7,480)
Other administration expenses		**(56,826)**	(31,170)
Administrative expenses		**(73,123)**	(38,650)
Operating profit		**22,685**	16,435
Financing income	6	**791**	26
Financing cost	6	**(1,316)**	(4,467)
Share of post-tax profit / (loss) of equity accounted associates	27	**(66)**	**-**
Profit before taxation		**22,094**	11,994
Tax expense	7	**(7,191)**	(4,731)
Profit		**14,903**	7,263
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain / (loss) on defined benefit plans	19	**27**	(25)
Items that may be reclassified subsequently to profit or loss			
Exchange gain / (loss) in net investments			

foreign operations *		**1,270**	(893)
Exchange gain / (loss) on translation of foreign operations		**771**	(3,598)
Total comprehensive income		**16,971**	2,747
Earnings per share		**€ cent**	€ cent
Basic earnings per ordinary share	8	**23.16**	12.37
Diluted earnings per ordinary share	8	**22.24**	11.87

* Please note that "Exchange gains / (loss) on net investments in foreign operations" 2017, have been re-classified to correctly classify them as "Items that may be reclassified subsequently to profit or loss", within Other Comprehensive Income

All Profit and Comprehensive Income is attributable to the shareholders. The notes form an integral part of these consolidated financial statements.

On behalf of the Board

Andrew Day	**David Broderick**
Director	**Director**

8 April 2019

Consolidated Statement of Financial Position

		At 31 December	
		2018	2017 Restated (note 31)
	Note	**€'000**	€'000
Non-current assets			
Property, plant and equipment	13	**15,002**	10,111
Goodwill	11	**154,202**	108,062
Intangible assets	12	**25,884**	23,548
Investment in associate	27	**160**	-
Deferred tax assets	26	**2,967**	1,206
		198,215	142,927
Current assets			
Trade receivables	14	**37,019**	27,473
Other receivables	15	**23,459**	22,335
Cash and cash equivalents		**39,871**	30,374
		100,349	80,182
Total assets		**298,564**	223,109
Equity			
Share capital	16	**763**	737
Share capital - to be issued	16	**15,648**	11,620
Share premium	16	**102,225**	102,054
Merger reserve	16	**35,996**	28,878
Foreign exchange reserve		**(1,463)**	(3,504)
Shares held in EBT		**(1,997)**	(1,997)
Share option reserve		**6,674**	2,545
Retained earnings		**34,529**	20,679
Total equity		**192,375**	161,012
Current Liabilities			
Trade payables		**7,142**	7,310
Other payables	18	**41,153**	22,179
Loans and borrowings	20	**40,071**	18,943
Corporation tax liabilities		**6,665**	3,245
		95,031	51,677
Non-current liabilities			
Other payables	18	**1,062**	1,233

Employee defined benefit plans	10	**1,378**	1,055
Loans and borrowings	20	**230**	937
Deferred tax liabilities	26	**8,488**	7,795
		11,158	10,420
Total equity and liabilities		**298,564**	223,109

The notes form an integral part of these financial statements. The financial statements were approved and authorised for issue by the Board on 8 April 2019.

On behalf of the Board

Andrew Day **David Broderick**

Director **Director**

8 April 2019

Consolidated Statement of Changes in Equity

	Share capital	Share capital / shares to be issued	Share premium	Merger reserve	Foreign exchange reserve	Shares held in EBT	Share option reserve	Retained earnings	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2017	654	8,792	19,983	22,109	987	(1,434)	1,305	14,308	66,704
Profit for the period	-	-	-	-	-	-	-	7,263	7,263
Other comprehensive income	-	-	-	-	(4,491)	-	-	(25)	(4,516)
Total comprehensive income for the period	-	-	-	-	(4,491)	-	-	7,238	2,747
Contributions by and contributions to the owners:									
Shares issued for cash	61	-	82,261	-	-	-	-	-	82,322
Share option expense	-	-	-	-	-	-	1,240	-	1,240
Share options exercised	6	-	608	-	-	(563)	-	-	51
Dividends paid (note 9)	-	-	-	-	-	-	-	(867)	(867)
Acquisition related issuance of shares (note 16)	16	2,947	-	5,971	-	-	-	-	8,934
Reclassification of share premium on acquisitions to merger reserve	-	-	(798)	798	-	-	-	-	-
Contributions by and contributions to the owners	83	2,947	82,071	6,769	-	(563)	1,240	(867)	91,680
Balance at 31 December 2017	**737**	**11,739**	**102,054**	**28,878**	**(3,504)**	**(1,997)**	**2,545**	**20,679**	**161,131**
Measurement period adjustment (note 31)	**-**	(119)	**-**	**-**	**-**	**-**	**-**	**-**	(119)
Balance at 31 December 2017 restated	**737**	**11,620**	**102,054**	**28,878**	**(3,504)**	**(1,997)**	**2,545**	**20,679**	**161,012**
Profit for the period	-	-	-	-	-	-	-	14,903	14,903
Other comprehensive income	-	-	-	-	2,041	-	-	27	2,068
Total comprehensive									

income for the period	-	-	-	-	2,041	-	-	14,930	16,971
Contributions by and contributions to the owners:									
Shares issued for cash	-	-	-	-	-	-	-	-	-
Share option expense	-	-	-	-	-	-	4,129	-	4,129
Share options exercised	3	-	171	-	-	-	-	-	174
Dividends paid (note 9)	-	-	-	-	-	-	-	(1,080)	(1,080)
Acquisition related issuance of shares (note 16)	23	4,028	-	7,118	-	-	-	-	11,169
Contributions by and contributions to the owners	26	4,028	171	7,118	-	-	4,129	(1,080)	14,392
Balance at 31 December 2018	**763**	**15,648**	**102,225**	**35,996**	**(1,463)**	**(1,997)**	**6,674**	**34,529**	**192,375**

Consolidated Statement of Cash Flows

		Years ended 31 December	
		2018	2017
	Note	**€'000**	€'000
Cash flows from operating activities			
Profit after tax		**14,903**	7,263
Income and expenses not affecting operating cash flows			
Depreciation	13	**5,316**	2,730
Intangibles amortisation	12	**6,872**	3,038
Income tax expense	7	**7,191**	4,731
Share option expense	17	**4,129**	1,426
Costs of acquisition & integration *	5	**5,296**	3,016
Loss on disposal of fixed assets		**63**	103
Unwinding of present value adjustment on deferred consideration *	6	**311**	266
Share of post-tax loss of equity accounted associates	27	**66**	-
Interest receivable	6	**-**	(26)
Employee benefit costs	19	**279**	209
Interest expense *	6	**502**	312
Unrealised foreign exchange (gain)/loss		**(992)**	2,033
		29,033	17,838
Changes in operating assets and liabilities			
Decrease / (increase) in trade receivables		**(7,680)**	2,506
Decrease / (increase) in MMTC and VGTC receivable		**(370)**	(873)
Decrease / (increase) in other receivables		**2,850**	(4,540)
(Decrease) / increase in trade and other payables		**(252)**	(82)
		(5,452)	(2,989)
Income taxes paid		**(6,304)**	(5,454)
Net cash provided by operating activities		**32,180**	16,658
Cash flows from investing activities			
Current year acquisition of subsidiaries net of cash acquired	28	**(24,163)**	(86,776)
Prior year acquisition of subsidiaries net of cash acquired	29	**(726)**	-
Settlement of deferred liabilities on acquisitions	18	**(1,603)**	(298)
Investment in associate	27	**(226)**	-
Acquisition of property, plant and equipment	13	**(9,440)**	(3,803)
Investment in intangible assets	12	**(1,599)**	-
Acquisition & integration cash outlay	5	**(4,530)**	(3,016)
Interest received		**-**	26
Net cash used in investing activities		**(42,287)**	(93,867)
Cash flows from financing activities			

Repayment of loans	30	**(10,835)**	(23)
Loan to finance acquisitions	30	**31,850**	10,250
Dividends paid	9	**(1,080)**	(867)
Financing EBT for share options exercised		**-**	(563)
Shares issued for cash	16	**174**	82,936
Interest paid		**(502)**	(279)
Net cash provided by financing activities		**19,607**	91,454
Increase / (decrease) in cash and cash equivalents		**9,500**	14,245
Exchange (loss) / gain on cash and cash equivalents		**(3)**	(891)
Cash and cash equivalents at beginning of the period		**30,374**	17,020
Cash and cash equivalents at end of period		**39,871**	30,374

* Please note that comparatives have been re-classified to reflect current year presentation as the Directors consider this presentation to be more meaningful.

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 consolidated financial statements include the financial statements of the Company and its subsidiaries (the "Group") made up to 31 December 2018. The Group was formed on 8 July 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.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

The financial statements have been prepared in thousands (€'000) and the financial statements are presented in Euro (€) which is the functional currency of the Group.

New Standards, Interpretations and Amendments Effective 1 January 2018

Impact of IFRS 9
The Group implemented IFRS 9 Financial Instruments, as of 1 January 2018. The new standard includes revised guidance on the classification and measurement of financial instruments. With the exception of adopting the new expected credit loss model for calculating impairment on financial assets, the implementation of the new standard has not resulted in significant change in the relevant accounting policies for the Group. For the Group, the financial instruments that are impacted are trade receivables. At the end of each accounting period, the Group assesses the requirement for the impairment of trade receivables on the basis of the expected credit loss rate. Having assessed the requirements according to the standards, the Group has concluded that no significant additional impairment to the carrying values of the assets was required at 1 January 2018, or at 31 December 2018. The new standard has not resulted in a significant change in how the Group records financial liabilities.

Impact of IFRS 15
The Group implemented IFRS 15 Revenue from Contracts with Customers, as of 1 January 2018. The new standard sets out revenue recognition requirements, and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the Group's contracts with customers. Following implementation of IFRS 15, there was no material impact of transition on retained earnings at 1 January 2018, on the Group's statement of financial position as at 31 December 2018, on its statement of profit or loss and other comprehensive income, or on the cash flows for the period to 31 December 2018. The new standard also introduces expanded disclosure requirements; however, the implementation of the new standard did not result in a significant change in the revenue recognition accounting policies of the Group.

New Standards, Interpretations and Amendments Not Yet Effective

The Group has adopted the following standards from 1 January 2019. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Group.

Impact of IFRS 16
IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 - Operating Leases - Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard is applicable from 1 January 2019.

The Group has entered into leases, across the business, principally relating to property. These property leases have varying terms and renewal rights. The Group has adopted IFRS 16 from 1 January 2019, by applying the modified retrospective approach. In 2019, the Group now recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset), for all material lease arrangements over 12 months in duration.

The main impact on the financial statements will be to recognise on 1 January 2019, assets and liabilities, in the Statement of Financial Position in relation to right-of-use assets and liabilities (previously considered as operating leases), of €22.8m. In the 2019 Consolidated Statement of Comprehensive Income, as the right-of-use assets are capitalised and depreciated over the term of the lease, with an associated finance cost applied to the lease liability, we anticipate operating expenses will decrease, as lease payments of €7.1m (which is less than operating lease payments disclosed in note 5 as short term leases will continue to be recognised under IAS 17), previously recognised in administration expenses, are capitalised. In addition, depreciation expenses (also recognised in administration expenses) of €6.9m will be recognised, while financing costs will increase by €0.6m, under the new standard. This will lead to an improvement in EBITDA, Operating profit and Profit before taxation. The Group's Cash Flow Statement in 2019 will separate the interest and capital repayment elements of leases payments.

These financial statements made up to 31 December 2018 have been prepared under IAS 17 as outlined in note 2.

Impact of IFRIC 23

IFRIC 23 Uncertainty over Income Tax Positions, which was issued in June 2017, clarifies how to recognise and measure current and deferred income tax assets and liabilities when there is uncertainty over income tax treatments. The new standard is applicable from 1 January 2019. The Group do not anticipate a material impact on the financial statements on transition to the new standard.

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.

Business Combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Consolidated Statement of Financial Position, the acquired 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 consolidated 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. The fair value of contingent consideration at acquisition date is arrived at through discounting the expected payment (based on scenario modelling) to present value. In general, in order for contingent consideration to become payable, pre-defined profit and / or revenue targets must be exceeded. At each balance sheet date, the fair value of the contingent consideration is revalued, with the expected pay-out determined separately in respect of each individual acquisition and any change 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 classified as an equity arrangement and the value of the shares is fixed at the date of the acquisition.

Equity accounted investments

The Group's investments in its associates are accounted for using the equity method from the date significant influence is deemed to arise until the date on which significant influence / joint control ceases to exist or when the interest becomes classified as an asset held for sale.

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 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

The Group's Intangible Assets comprise Customer Relationships and Other Intangible Assets.

Customer Relationship

Intangible assets, separately identified from goodwill acquired as part of a business combination (mainly Customer Relationships), are initially stated at fair value. The fair value attributed is determined by discounting the expected future cashflows generated from the net margin of the business from the main customers taken on at acquisition. The assets are amortised on a straight-line basis (to administration expenses) over their useful economic lives. A useful economic life of five years is deemed appropriate, however, this is re-examined for each acquisition.

Other Intangible Assets

Other intangible assets include Intellectual Property and Music Licences, both acquired and internally developed. Other intangible assets are recognized as assets where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization (see below) and impairment losses, if any. Subsequent expenditures on capitalised intangible assets are capitalised only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditure is expensed as incurred. Other intangible assets with definite useful lives are amortized from the date they are available for use on a straight-line basis over their useful lives, being the estimated period over which the Group will use the assets. Residual amounts, useful lives and the amortization methods are reviewed at the end of every accounting period.

Development costs are capitalised as an intangible asset if all of the following criteria are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;

• the ability to use or sell the intangible asset;
• the asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the intangible asset if it is to be used internally;
• the availability of adequate technical, financial and other resources to complete the development and to use or sell it;
• the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development expenditure as an intangible asset, the cost model is applied requiring the intangible asset to be carried at cost, less any accumulated amortization and accumulated impairment losses. The intangible asset is amortized on a straight-line basis over the period of its expected benefit, starting from the date of full commercial use of the product. During the period of development, the asset is tested for impairment annually. If specific events indicate that impairment of an item of intangible asset may have taken place, the item's recoverability is assessed by comparing its carrying amount with its recoverable amount. The recoverable amount is the higher of the fair value net of disposal costs and the value in use.

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 ("CGUs"). 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.

Cash and Cash Equivalents

For the purpose of presentation in the Statement of Financial Position and on the Statement of Cash Flows, cash and cash equivalents include cash on hand and on call deposits with financial institutions.

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 of 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 from Contracts with Customers

Contracts are typically for services, performing agreed-upon tasks for a customer and can be time-and-materials or milestone based. Most contracts are short term in duration (generally less than one month), however milestone based contracts are typically long term and extend to many months (or over a year in many cases). Where there are multiple performance obligations outlined in a contract, each performance obligation is separately assessed, the transaction price is allocated to each obligation, and related revenues are recognised as services or assets are transferred to the customer.

Revenue is derived from seven main service groupings:

- 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. Contracts can be either time-and-materials based, or milestone based, with performance obligations satisfied over time. Contracts are generally short term in duration, however for longer contracts the input method is used to measure progress. Time and materials-based contract revenue is recognized as the related services are rendered. For milestone-based contracts where progress can be measured reliably towards complete satisfaction of the performance obligation, revenue is recognised using the input method to measure progress. Where progress cannot be measured reliably, revenue is recognised on milestone acceptance.

- Engineering - Engineering relates to software engineering services which are integrated with client processes to develop video games. Contracts can be either time-and-materials based, or milestone based, with performance obligations satisfied over time. Contracts are generally long term in duration. Time and materials-based contract revenue is recognised as the related services are rendered. For milestone-based contracts where progress can be measured reliably towards complete satisfaction of the performance obligation, revenue is recognised using the input method to measure progress. Where progress cannot be measured reliably, revenue is recognised on milestone acceptance.

- 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. Audio contracts may also involve music licencing or selling music soundtracks. Audio service contracts are typically milestone based, with performance obligations satisfied over time. Audio services contracts are generally short term in duration, however for longer contracts where progress towards complete satisfaction of the performance obligation can be measured reliably, revenue is recognised using the input method to measure progress. Where progress cannot be measured reliably, audio services revenue is recognised on milestone acceptance. Music licencing and music soundtracks performance obligations are assessed separately, and related revenue is recognised on licence inception and on delivery of the soundtracks, respectively.

- Localization Services - Localization services relate to translation and cultural adaptation of in-game text and audio scripts across multiple game platforms and genres. Contracts are typically time-and-materials based and performance obligations are satisfied over time. Contracts are generally short term in duration, however for longer contracts the input method is used to measure progress. Localization contracts may also involve licencing translation software as a service. Such revenue is assessed separately. Revenue is recognised as the related services are rendered.

- Localization Testing - Localization Testing involves testing the linguistic correctness and cultural acceptability of computer games. Contracts are typically time-and-materials based and performance obligations are satisfied over time. Contracts are generally short term in duration, however for longer contracts the input method is used to measure progress. Revenue is recognised as the related services are rendered.

- Functional Testing - Functional Testing relates to quality assurance services provided to game producers to ensure games function as required. Contracts are typically time-and-materials based and performance obligations are satisfied over time. Contracts are generally short term in duration, however for longer contracts the input method is used to measure progress. Revenue is recognised as the related services are rendered.

- Player Support - Player 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. Contracts are typically time-and-materials based and performance obligations are satisfied over time. Contracts are generally long term with the input method used to measure progress. Revenue is recognised as the related services are rendered.

Due to the nature of the services provided and the competitive nature of the market, contracts generally allocate specific transaction prices to separate performance obligations. Individual services or individual milestones generally involve extensive commercial negotiation to arrive the specific agreed-upon tasks, and the related pricing outlined in the contract. Such negotiations extend further for milestone based contracts to also include the criteria involved in the periodic and regular process of milestone acceptance by the customer. Such criteria may involve qualitative, as well as quantitative measures and judgements.

In measuring progress towards complete satisfaction of performance obligations, the input method is considered to be the most appropriate method to depict the underlying nature of the contracts with customers, the interactive way the service is delivered and projects are managed with the customer. For time-and-materials contracts, other than tracking and valuing time expended, significant judgement is not normally involved. For milestone based contracts, progress is generally measured based on the proportion of contract costs incurred at the balance sheet date, (e.g. worked days) relative to the total estimated costs of the contract, involving estimates of the cost to completion etc. Added to this significant judgement can be involved in measuring progress towards customer acceptance of the milestone. Significant judgement may also be involved where circumstances arise that may change the original estimates of revenues, costs or extent of progress towards complete satisfaction of the performance obligations. In such circumstances estimates are revised. These revisions may result in increases or decreases in revenue or costs and are reflected in income in the period in which the circumstances that give rise to the revision became known. When the outcome of a contract cannot be measured reliably, contract revenue is recognised only to the extent that milestone have been accepted by the customer. Contract costs are recognised as incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately.

Revenue recognised represents the consideration received or receivable, net of sales taxes, rebates discounts and after eliminating intercompany sales. Revenue is recognised only where it is probable that consideration will be received. Where consideration is received and the related revenue has not been recognised, the consideration received is recognised as a contract liability (Deferred Revenue), until either revenue is recognised or the consideration is refunded.

Multimedia Tax Credits / Video Game Tax Credits

The multimedia tax credits ("MMTC") received in Montreal and video games tax credits ("VGTC") in the UK, are a credit related to staff costs. Accordingly, they are treated as a deduction against direct costs. The nature of the grants is such that they are not dependent on taxable profits. Tax credits have only been recognised where management believe that a tax credit will be recoverable based on their experience and the success of similar historical claims.

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 holding company and recharged to the subsidiary company through an inter-company charge.

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 Index (excluding Investment Trusts) in terms of shareholder return over a three-year period. For the awards up to 2015, there were three award levels: one-third of the share options vest if the Company shall exceed the Total Shareholder Returns of the Numis Small Cap Index by not less than 10%, two-thirds if the shareholder return exceeds by over 20% and 100% if the shareholder return exceeds by over 30%. This was amended for the 2016 and 2017 awards to 100% if the shareholder return exceeds by over 45%, and a pro-rated return between 10% and 100% if the shareholder return exceeds by between 0% and 45%.

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

The Group's most significant financial assets comprise trade and other receivables and cash and cash equivalents in the statement of financial position, whereas the Company's most significant financial assets comprise inter-group receivables.

Trade Receivables

Trade receivables, which principally represent amounts due from customers, are recognised at amortised cost as they meet the IFRS 9 classification test of being held to collect, and the cash flow characteristics represent solely payments of principal and interest.

The Group's impairment methodology has been revised in line with the requirements of IFRS 9. The simplified approach to providing for expected credit losses has been applied to trade receivables, which requires the use of a lifetime expected loss provision. As part of the IFRS 9 transition project, the Group assessed its existing trade and other receivables for impairment, using reasonable and supportable forward looking information that is available without undue cost or effort, to determine the credit risk of the receivables at the date on which they were initially recognised and compared that to the credit risk as at 1 January 2018. This assessment has not resulted in a material adjustment to trade and other receivables.

Trade receivables are written-off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company.

There has been no significant change to the carrying value of trade and other receivables as a result of the implementation of IFRS 9.

Previous accounting policy for impairment of trade and other receivables
In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. An estimate for doubtful debts was made when there was objective evidence that the Group would not be able to collect amounts due according to the original terms of receivables. Bad debts were written off when identified.

Intercompany Receivables

Intercompany receivables are recognised at amortised cost as they meet the IFRS 9 classification test of being held to collect, and the cash flow characteristics represent solely payments of principal and interest.

The Group applies the general approach to applying the expected credit losses to its related party loans. Under the General Approach, at each reporting date, the Group determines whether there has been a Significant Increase in Credit Risk (SICR) since initial recognition and whether the loan is credit impaired. This determines the amount of expected credit losses to be recognised.

There has been no significant change to the carrying value of intercompany receivables upon the implementation of IFRS 9.

Previous accounting policy for intercompany receivables
In the prior year, the impairment of intercompany receivables was based upon the incurred losses model, whereby impairment losses were recognised when there was objective evidence that the Group would not be able to collect amounts due to the original terms.

Cash and cash equivalents

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.

Contract Assets

Contract assets arising from Revenue from Contracts with Customers are recognised in accordance with our Revenue Recognition policy, as discussed separately in this note. The Group applies the simplified approach to assessing expected credit losses in relation to contract assets, as the maturities of such assets are less than 12 months. Based upon the recoverability of contract assets subsequent to the year end, no significant expected credit loss provision has been applied.

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, bank borrowings 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 Position. 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 Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Judgements

The judgements, apart from those involving estimations, that management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statement, are outlined below.

- Functional Currency: The directors have considered the requirements of IAS 21 in determining the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions to determine the Group's functional currency. Detailed consideration has been given to both the Primary and Secondary Indicators in forming this conclusion. The Primary Indicators relate to revenues, regulation, competitive forces and costs, while the Secondary Indicators are primarily concerned with financing the business and the currency in which receipts from operating activities are usually retained. With a mix of currencies dominating the indicators, there is no clear single currency that influences the Group, however the EUR remains marginally the most dominant when all factors are considered. Therefore the directors consider the EUR as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

- Business Combinations: When acquiring a business, the Group is required to identify and recognise intangible assets, the determination of which requires a significant degree of judgement. Acquisitions may also result in intangible benefits being brought into the Group, some of which qualify for recognition as intangible assets while other such benefits do not meet the recognition requirements of IFRS and therefore form part of goodwill. Customer relationships are recognised as separate assets where revenues are recurring in nature and material revenues have been generated with the customer for a continuous period of 3 years. For the Engineering service line, the key asset acquired is typically "know-how", an asset that is not readily measurable and thus intrinsically linked to goodwill. Relationships are typically short term contract based rather than relationship based. Therefore neither customer contracts or customer relationships are typically recognised on the acquisition of an Engineering business.

Estimates and assumptions

The estimates and assumptions that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are monitored by the Directors on an ongoing basis. A number of areas requiring the use of estimates and critical judgements impact the Group's earnings and financial position. These include revenue recognition, the computation of income taxes, the value of goodwill and intangible assets arising on acquisitions, the valuation of multimedia tax credits / video game tax credits and the valuation of defined retirement benefits. The Directors consider that no reasonably possible changes to any of the assumptions used in the estimates would in the view of the Directors give rise to significant risk of a material adjustment to the carrying value of the associated balances in the subsequent financial year. While a number of these areas were highlighted in the 2017 Annual Report, because the Directors consider that no reasonably possible changes to any of the assumptions used in the estimates would give rise to significant risk of a material adjustment, these items have been removed from the Critical Accounting Estimates and Judgements.

4. Revenue From Contracts With Customers and Segmental Analysis

Revenue From Contracts With Customers

Revenue recognised in the reporting period arises from contracts with customers, and is predominantly recognised over time. There were no significant amounts of revenue recognised in the reporting period that were included in a contract liability balance at the beginning of the reporting period, or from performance obligations satisfied in the previous reporting period.

	2018	2017
	€'000	€'000
Revenue by line of business		
Art creation	**41,688**	26,193
Audio	**34,190**	20,657
Localization	**43,983**	41,959
Functional testing	**49,128**	30,033
Localization testing	**19,751**	19,848
Customer support	**35,904**	9,168
Engineering	**26,161**	3,572
	250,805	151,430

Analysis by geographical regions is made according to the Group's operational jurisdictions. For many contracts, operations are completed in multiple sites. Revenue is associated with the jurisdiction from which the final invoice to the client is raised. This does not reflect the region of the Group's customers; whose locations are worldwide.

	2018	2017
	€'000	€'000
Canada	**69,536**	45,648
Ireland	**47,203**	34,277
Switzerland	**20,067**	19,565
Italy	**8,673**	10,029
India	**2,407**	5,177
United States	**52,321**	12,199
Japan	**7,724**	6,352
United Kingdom	**21,205**	2,467
Spain	**1,968**	2,194
China	**3,126**	3,685
Singapore	**5,046**	4,451
Germany	**741**	928
Brazil	**1,016**	520
Mexico	**936**	180
France	**8,489**	3,758
Russia	**-**	-

Poland	**347**	-
Philippines	**-**	-
Taiwan	**-**	-
	250,805	151,430

No single customer accounted for more than 10% (2017: None) of the Group's revenue during the year.

For all service lines excluding Engineering, contracts do not extend to more than one year, therefore we do not disclose information concerning unsatisfied performance obligations, as allowed under the practical expedient exemption under IFRS 15. This practical expedient is also availed of for Engineering contracts of less than one year in duration. For Engineering contracts that extend beyond one year the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period is as follows:

Value of undelivered performance obligations for contracts greater than one year	**Total undelivered €'000**	**Scheduled completion within 1 year €'000**	**Scheduled completion 1-2 years €'000**
At 31 December 2018	**10,417**	**9,112**	**1,305**
At 31 December 2017	**-**	**-**	**-**

The balances arise primarily in new acquisitions during 2018. There were no significant undelivered performance obligations for contracts greater than one year in 2017.

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 seven main service groupings.

There is no allocation of operating expenses, profit measures, assets and liabilities to individual product groupings. Accordingly, the disclosures above are provided on a 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.

Geographical Analysis of Non-Current Assets from Continuing Businesses

	2018 €'000	2017 Restated (note 31) €'000
Canada	**11,760**	8,889
Ireland	**3,542**	119
Switzerland	**11,117**	11,158
Italy	**11,650**	11,723
India	**2,321**	2,588
United States	**84,685**	77,177
Japan	**796**	565
United Kingdom	**48,929**	10,011
Spain	**1,535**	1,520
China	**7,850**	7,707
Singapore	**52**	42
Germany	**1,097**	1,168
Brazil	**888**	231
Mexico	**885**	892
France	**6,318**	6,531
Russia	**797**	866
Poland	**267**	58

Philippines	**595**	472
Taiwan	**4**	4
	195,088	141,721

Geographical Analysis of Non-current Assets from Continuing Businesses	**195,088**	141,721
Investment in associate	**160**	-
Deferred tax assets	**2,967**	1,206
Non-current assets	**198,215**	142,927

5. Cost of Sales and Operating Profit

Cost of sales	**2018 €'000**	2017 €'000
Operating expenses *	**163,112**	98,850
Multimedia tax credits / video game tax credits	**(12,220)**	(4,408)
Other direct costs	**4,105**	1,903
	154,997	96,345

*Please note the comparative has been re-classified to be consistent with current year presentation, as the Directors have determined this presentation to be more meaningful.

Operating profit is stated after charging:

	2018 €'000	2017 €'000
Depreciation	**5,316**	2,730
Amortisation of intangible assets	**6,872**	3,038
Costs of acquisitions & integration	**5,296**	3,016
Operating lease payments	**8,708**	2,369

Costs of acquisitions & integration	**2018 €'000**	2017 €'000
Post-acquisition integrations costs re: 2018 acquisitions (note 28)	**758**	-
Post-acquisition integrations costs re: 2017 acquisitions (note 29)	**1,875**	2,336
Fair value adjustments to contingent consideration	**766**	-
Deferred consideration related to continuing employment	**590**	-
Acquisition related and other borrowing costs	**693**	-
Acquisition team and related costs	**614**	680
	5,296	3,016

	2018 €'000	2017 €'000
Auditors'		

remuneration		
Audit services		
Parent company and Group audit	**329**	164
Subsidiary companies audit	**137**	99
Non-audit services		
Acquisition related due diligence services	**-**	242
Audit related assurance services	**16**	-
Taxation compliance	**7**	73
	489	578

6. Financing Income and Cost

	2018	2017
		Restated
	€'000	€'000
Finance income		
Interest received	-	26
Foreign exchange gain	**791**	-
	791	26
Finance cost		
Bank charges	**(503)**	(320)
Interest expense	**(502)**	(312)
Unwinding of discounted liabilities *	**(311)**	(266)
Foreign exchange losses	**-**	(3,569)
	(1,316)	(4,467)
Net financing income / (cost)	**(525)**	(4,441)

*Please note the comparative has been restated to separate "Unwinding of discounted liabilities" from "Interest expense", as the Directors have determined this presentation to be more meaningful.

7. Taxation

	2018	2017
		Restated
	€'000	€'000
Current income tax		
Income tax on profits of parent company	**-**	-
Income tax on profits of subsidiaries	**9,592**	5,762
Deferred tax (note 26)	**(2,401)**	(1,031)
	7,191	4,731

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

	2018	2017
		Restated
	€'000	€'000
Profit before tax	**22,094**	11,994
Tax charge based on the Effective Tax Rate*	**5,345**	3,175
Corporate tax prior year (over) / under provision	**(352)**	62
Deferred tax prior year (over) / under provision and impact of change in tax rates	**(368)**	(55)
Items disallowed for tax purposes	**2,205**	717
Exempt and non-taxable income	**(588)**	(259)
Tax incentives	**(1,035)**	(222)
Current year tax losses utilised	**(131)**	(40)
Current year tax losses where deferred tax has not been provided	**730**	631
State and other direct taxes	**1,529**	758

Other differences - net	**(144)**	(36)
Total tax charge	**7,191**	4,731
*Effective tax rate - being the statutory tax rate relative to the profit before tax in each jurisdiction	**24.2%**	26.5%

Please note the reconciliation of Profit before tax to the Total tax charge for 2017 has been restated to present the note with reference to the effective tax rate, whereas in the 2017 financial statements the note was presented with reference to the UK tax rate, as the Directors have determined this presentation to be more meaningful.

The Group's subsidiaries are located in different jurisdictions and are taxed on their residual profit in those jurisdictions. The effective tax rate will vary year on year due to the effect of changes in tax rates and changes in the proportion of profits in each jurisdiction.

Tax effects relating to each component on other comprehensive income

	2018 **€'000**	2017 €'000
Exchange gain / (loss) in net investments foreign operations	**1,270**	(893)
Tax (expense) / benefit	**-**	-
Net of tax amount	**1,270**	(893)
Actuarial gain / (loss) on defined benefit plans	**27**	(25)
Tax (expense) / benefit	**6**	7
Net of tax amount	**33**	(18)
Exchange gain / (loss) on translation of foreign operations	**771**	(3,598)
Tax (expense) / benefit	**-**	-
Net of tax amount	**771**	(3,598)

8. Earnings per Share

	2018 **€ cent**	2017 € cent
Basic	**23.16**	12.37
Diluted	**22.24**	11.87
	€'000	€'000
Profit for the period from continuing operations	**14,903**	7,263
Denominator (weighted average number of equity shares)	**Number**	Number
Basic *	**64,335,162**	58,720,884
Diluting impact of Share Options	**2,679,932**	2,477,788
Diluted *	**67,015,094**	61,198,672
* Includes (weighted average) shares to be issued (note 16)	**1,321,707**	2,174,526

Contingently issuable Ordinary Shares are excluded from the computation of diluted earnings per Ordinary Share where the conditions governing exercisability have not been satisfied:

	2018 **Number**	2017 Number
LTIPs	**951,800**	-
Share options	**544,900**	-
	1,496,700	**-**

Details of the number of share options outstanding at the year-end are set out in note 17.

9. Dividends

Dividends Paid	In respect of	Approval date	€ Cent per share	Pence STG per share	Total dividend €'000	Payment date
Final	2016	Apr-17	1.01	0.89	563	Jun-17
Interim	2017	Sep-17	0.54	0.48	304	Oct-17
Dividends paid to shareholders 2017			1.55	1.37	867	
Final	**2017**	**Apr-18**	**1.11**	**0.98**	**696**	**Jun-18**
Interim	**2018**	**Sep-18**	**0.60**	**0.53**	**384**	**Oct-18**
Dividends paid to shareholders 2018			**1.71**	**1.51**	**1,080**	

Recommended	In respect of	Approval date	Expected € cent per share	Pence STG per share	Expected total dividend €'000	Expected payment date
Final	2018		1.21	1.08	774	Jun-19

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.

The Group does not recognise deferred tax on unremitted retained earnings, as in general, retained earnings are continually re-invested by the Group and dividends are only remitted where there are minimal tax consequences.

At 31 December 2018 Retained Earnings available for distribution (being retained earnings plus share option reserve) in the Company were €4.1m (2017: €2.2m). The Directors do not foresee any impediment in continuing to implement the dividend policy of the Group.

Following on distributions made in 2016 and 2017 that were not fully in compliance with the Companies Act 2006, the Directors have implemented legal advice to ensure ongoing compliance and rectify the oversights in earlier periods.

10. Staff Costs

Total staff costs (including Directors) comprise the following:

	2018	2017
	€'000	€'000
Salaries & related costs	**146,785**	81,563
Share based payment costs	**4,129**	1,426
	150,914	82,989

Key management compensation:

	2018	2017

	€'000	€'000
Salaries & related costs	**907**	690
Social welfare costs	**99**	79
Pension costs	**27**	4
Share based payment costs	**501**	141
	1,534	914

The key management compensation includes compensation to seven Directors of Keywords Studios PLC during the year (2017: seven).

Group	**2018**	2017
Average number of employees		
Operations	**4,733**	2,921
General & administration	**505**	246
	5,238	3,167

11. Goodwill

	€'000
At 1 January 2017	46,799
Recognition on acquisition of subsidiaries (note 29)	66,853
Exchange rate movement	(4,645)
At 31 December 2017 as reported	109,007
Measurement period adjustment on Sperasoft goodwill (note 31)	(945)
At 31 December 2017 restated	**108,062**
Recognition on acquisition of subsidiaries (note 28)	43,144
Exchange rate movement	2,996
At 31 December 2018	**154,202**

The Group assesses the carrying value of goodwill each year on the basis of budget projections for the coming year extrapolated using a one to five year growth rate and a terminal value calculated using a long term growth rate projection. The discount rates used of 12.5% (2017: 12.5%) is based on the Board's assessment of the WACC of the Group. The WACC assessment is supported by an annual independently calculated report, using the Capital Asset Pricing Model. However, the Board have excluded the impact of short term market volatility on these calculations in determining the Group WACC.

Key Assumptions

	Actual		Sensitivity analysis			
	2018	2017	**2018**	2017	**2018**	2017
1-5 year growth rate assumption	**10%**	10%	**15%**	15%	**5%**	5%
Long term growth rate assumption	**2%**	2%	**2%**	2%	**2%**	2%
Value in use (€m)	**445**	371	**532**	399	**378**	284
Carrying value - goodwill (€m)	**154**	108				

The value in use calculations were consistently calculated year over year, with no significant changes in the assumptions made. The result of the value in use calculations was that no impairment is required in this period.

12. Intangible Assets

	Customer relationships	**Intellectual property**	**Music licences**	**Total**

	€'000	€'000	€'000	€'000
Cost				
At 1 January 2017	11,630	-	-	11,630
Recognition on acquisition of subsidiaries	18,962	-	-	18,962
Exchange rate movement	(1,310)	-	-	(1,310)
At 31 December 2017	**29,282**	**-**	**-**	**29,282**
Recognition on acquisition of subsidiaries	**6,564**	**-**	**362**	**6,926**
Additions	**-**	**1,521**	**78**	**1,599**
Exchange rate movement	**867**	**-**	**(4)**	**863**
At 31 December 2018	**36,713**	**1,521**	**436**	**38,670**
Amortisation				
At 1 January 2017	2,934	-	-	2,934
Amortisation charge	3,038	-	-	3,038
Exchange rate movement	(238)	-	-	(238)
At 31 December 2017	**5,734**	**-**	**-**	**5,734**
Amortisation charge	**6,758**	**-**	**114**	**6,872**
Exchange rate movement	**179**	**-**	**1**	**180**
At 31 December 2018	**12,671**	**-**	**115**	**12,786**
Net book value				
At 31 December 2017	23,548	-	-	23,548
At 31 December 2018	**24,042**	**1,521**	**321**	**25,884**

Customer relationships, intellectual property and music licences are amortised on a straight-line basis over five years. Customer relationships and music licence amortisation commences on acquisition, whereas intellectual property amortisation commences when the product is launched.

13. Property, Plant and Equipment

Group

	Computers and software	**Office furniture and equipment**	**Leasehold improvements**	**Total**
	€'000	€'000	€'000	€'000
Cost				
At 1 January 2017	8,485	3,158	1,724	13,367
Currency revaluation	(685)	(216)	(222)	(1,123)
Additions	2,514	772	601	3,887
Acquisitions through business combinations at fair value	2,214	603	1,350	4,167
Disposals	(54)	(1)	(29)	(84)
At 31 December 2017	**12,474**	**4,316**	**3,424**	**20,214**
Currency revaluation	**(114)**	**(15)**	**27**	**(102)**
Additions	**6,248**	**1,082**	**2,110**	**9,440**
Acquisitions through business combinations at fair value	**362**	**272**	**332**	**966**

Disposals	**(645)**	**(248)**	**(89)**	**(982)**
At 31 December 2018	**18,325**	**5,407**	**5,804**	**29,536**
Accumulated depreciation				
At 1 January 2017	5,756	1,790	323	7,869
Currency revaluation	(293)	(111)	(72)	(476)
Depreciation charge	1,795	543	392	2,730
Disposals	(6)	-	(14)	(20)
At 31 December 2017	**7,252**	**2,222**	**629**	**10,103**
Currency revaluation	**(51)**	**11**	**74**	**34**
Depreciation charge	**3,805**	**643**	**868**	**5,316**
Disposals	**(645)**	**(185)**	**(89)**	**(919)**
At 31 December 2018	**10,361**	**2,691**	**1,482**	**14,534**
Net book value				
At 31 December 2017	5,222	2,094	2,795	10,111
At 31 December 2018	**7,964**	**2,716**	**4,322**	**15,002**

14. Trade Receivables

Group	**2018 €'000**	2017 €'000
Trade receivables	**38,736**	27,891
Provision for bad debts	**(1,717)**	(418)
Financial asset held at amortised cost	**37,019**	27,473

Trade receivables arise from revenues derived from contracts with customers.

15. Other Receivables

Group Short Term*	**2018 €'000**	2017 €'000
Accrued income from contracts with customers	**6,317**	5,140
Prepayments & rent deposits	**2,490**	4,179
Other receivables	**2,459**	2,524
Multimedia tax credits / video games tax credits	**10,820**	10,016
Tax and social security	**1,373**	476
	23,459	22,335

*Please note the comparative Group Short Term, "Other Receivables" has been re-classified to be consistent with the current year presentation.

Accrued income from contracts with customers, represent mainly contract assets in process and related items. The movement in the year is comprised of transfers in and out as items are accrued and subsequently invoiced to customers, with no significant amounts written off or impaired in the period.

16. Shareholders' Equity

Share Capital

	Date	Per share €	Number of ordinary £0.01 shares	Number of ordinary £0.01 shares to be issued	Share capital €'000	Share premium €'000	Merger reserve €'000	Shares to be issued €'000
At 1 January 2017			**54,428,882**	**2,889,707**	**654**	**19,983**	**22,109**	**8,792**
Shares issued on the first anniversary of the acquisition of Synthesis	13-Apr	9.40	1,188,253	(1,188,253)	14	-	3,440	(3,454)
Shares issued on acquisition of Xloc	10-May	9.47	19,134	-	-	-	184	-
Shares issued on acquisition of Gamesim	17-May	9.20	151,725	-	2	-	1,392	-
Shares to be issued on acquisition of Red Hot	22-May	9.12	-	160,842	-	-	-	1,468
Shares issued on acquisition of Asrec	04-Aug	13.12	9,534	-	-	-	101	-
Shares to be issued on acquisition of Around the Word	04-Aug	12.07	-	66,262	-	-	-	800
Shares issued on acquisition of d3t	19-Oct	14.46	42,368	-	-	-	686	-
Shares to be issued on acquisition of Sperasoft	13-Dec	14.26	-	252,248	-	-	-	4,133
Shares issued on acquisition of Lola	15-Dec	16.56	10,106	-	-	-	168	-
Acquisition related issuance of shares			**1,421,120**	**(708,901)**	**16**	**-**	**5,971**	**2,947**
Reclassification of share premium on acquisitions			-	-	-	(798)	798	-
Placing of shares on the market	24-Oct	15.62	5,357,143	-	61	82,261	-	-
Issue of shares on exercise of share options		1.23	501,060	-	6	608	-	-
At 31 December 2017			**61,708,205**	**2,180,806**	**737**	**102,054**	**28,878**	**11,739**
Measurement period adjustment (note 31)		14.26	**-**	(8,806)	-	-	-	(119)
At 31 December 2017 restated			**61,708,205**	**2,172,000**	**737**	**102,054**	**28,878**	**11,620**
Shares to be issued on acquisition of Cord & Laced	09-Apr	17.48	-	73,744	-	-	-	1,289
Shares issued on the second anniversary of the acquisition of Synthesis	24-Apr	2.91	1,188,263	(1,188,263)	15	-	3,440	(3,455)

Shares issued on the second anniversary of the acquisition of Synthesis in lieu of deferred cash	24-Apr	19.39	51,562	-	1	-	999	-
Shares to be issued on acquisition of Fire Without Smoke	01-May	20.12	-	77,006	-	-	-	1,550
Shares issued on the second anniversary of the acquisition of Mindwalk	14-Jun	3.67	513,189	(513,189)	6	-	1,880	(1,886)
Shares to be issued on acquisition of Blindlight	11-Jun	20.57	-	64,521	-	-	-	1,327
Shares to be issued on acquisition of Snowed In	20-Jul	19.55	-	37,983	-	-	-	743
Shares to be issued on acquisition of Studio Gobo & Electric Square	20-Aug	19.74	-	254,529	-	-	-	5,024
Shares to be issued on acquisition of The Trailerfarm	18-Sep	21.33	-	11,070	-	-	-	236
Shares issued on the first anniversary of Around the Word	01-Oct	12.07	66,262	(66,262)	1	-	799	(800)
Acquisition related issuance of shares			**1,819,276**	**(1,248,861)**	**23**	**-**	**7,118**	**4,028**
Issue of shares on exercise of share options		0.67	260,805	-	3	171	-	-
At December 2018			**63,788,286**	**923,139**	**763**	**102,225**	**35,996**	**15,648**

There is no limit to the number of shares which the Company can issue, nor are there any restrictions on dividends or distributions on such shares.

Shares to be issued are valued at the share price at the date of acquisition, and are recorded as shares to be issued, in accordance with IAS 32.16.

Shares held by the Employee Benefit Trust ("EBT")

	2018		2017	
	Shares	**€'000**	Shares	€'000
Ordinary shares held by the EBT	**335,425**	**1,997**	335,425	1,997

Reserves

The following describes the nature and purpose of each reserve within owners' 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 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 consideration for the acquisition of an entity, the value of the shares in excess of the nominal value (net of share issuance costs) is also recorded within this reserve, in line with S612 of the Companies Act 2006.

17. 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:

	2018 €'000	2017 €'000
Share option scheme expense	**646**	178
LTIP option scheme expense	**3,483**	1,248
	4,129	1,426

Of the total share option expense, €501k relates to Directors of the Company (2017: €141k).

Share Option Scheme

Share options are granted to Executive 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:

	2018		2017	
	Average exercise price in £ per share	**Number of options**	Average exercise price in £ per share	Number of options
Outstanding at the beginning of the period	**2.79**	**1,375,201**	2.79	1,672,056
Granted	**17.10**	**591,000**	7.76	282,000
Lapsed	**13.24**	**(65,246)**	3.56	(30,000)
Exercised	**1.93**	**(68,254)**	1.35	(548,855)
Outstanding at the end of the period	**7.11**	**1,832,701**	2.79	1,375,201

Exercisable at the end of the period	**1.47**	**706,524**	1.30	515,296
Weighted average share price at date of exercise	17.68		12.32	

Summary by share option arrangement

Date of Option	12-Jul-13	01-Jun-15	10-May-16	15-May-17	18-May-18	Total
Exercise Price	£1.20	£1.58	£2.54	£7.76	£17.10	
Outstanding at the beginning of the period	285,311	636,816	180,074	273,000	-	1,375,201
Granted	-	-	-	-	591,000	591,000
Lapsed	-	(2,371)	(11,875)	(4,500)	(46,500)	(65,246)
Exercised	(9,827)	(29,412)	(29,015)	-	-	(68,254)
Outstanding at the end of the period	275,484	605,033	139,184	268,500	544,500	1,832,701
Exercisable at 31 December 2018	275,484	403,988	27,052	-	-	706,524
Exercisable 2019	-	201,045	56,066	89,500	-	346,611
Exercisable 2020	-	-	56,066	89,500	181,500	327,066
Exercisable 2021	-	-	-	89,500	181,500	271,000
Exercisable 2022	-	-	-	-	181,500	181,500

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

Date of Option	12-Jul-13	01-Jun-15	10-May-16	15-May-17	18-May-18	Total
Weighted average share price (£)	£1.23	£1.64	£2.54	£7.74	£17.21	
Weighted average exercise price (£)	£1.20	£1.58	£2.54	£7.76	£17.10	
Fair value at measurement date (€)	€0.81	€0.56	€0.40	€1.13	€3.79	
Average expected life	3 Years	3 Years	3 Years	3 Years	3 Years	
Expected volatility	36.12%	28.03%	27.17%	24.79%	35.87%	
Risk free rates	0.50%	0.90%	0.58%	0.16%	0.89%	
Average expected dividends yield	1.00%	0.75%	0.55%	0.21%	0.10%	
Weighted average remaining life of options in months	-	2	9	17	29	12

Expected volatility was determined by reference to KWS volatility. 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.

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.

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

Summary by LTIP Arrangement

	2018		2017	
	Average exercise price in £ per share	**Number of options**	Average exercise price in £ per share	Number of options
Outstanding at the beginning of the period	**0.01**	**1,976,416**	0.01	1,443,691
Granted	**0.01**	**996,000**	0.01	696,000
Lapsed	**0.01**	**(102,398)**	0.01	(47,621)
Exercised	**0.01**	**(192,551)**	0.01	(115,654)
Outstanding at the end of the period	**0.01**	**2,677,467**	0.01	1,976,416
Exercisable at the end of the period	**0.01**	**436,667**	0.01	222,238
Weighted average share price at date of exercise	**17.50**		13.09	

Date of option	08-Jul-13	06-Jan-15	01-Jun-15	10-May-16	03-Oct-16	15-May-17	18-May-18	23-Jul-18	Total
Exercise price	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01
Outstanding at the beginning of the period	222,238	101,060	317,118	610,000	30,000	696,000	-	-	1,976,416
Granted	-	-	-	-	-	-	990,000	6,000	996,000
Lapsed	-	(11,198)	-	(15,000)	-	(32,000)	(44,200)	-	(102,398)
Exercised	-	(89,862)	(102,689)	-	-	-	-	-	(192,551)
Outstanding at the end of the period	222,238	-	214,429	595,000	30,000	664,000	945,800	6,000	2,677,467
Exercisable at 31 December 2018	222,238	-	214,429	-	-	-	-	-	436,667
Exercisable 2019	-	-	-	595,000	30,000	-	-	-	625,000
Exercisable 2020	-	-	-	-	-	664,000	-	-	664,000
Exercisable 2021	-	-	-	-	-	-	945,800	6,000	951,800

Date of option	08-Jul-13	06-Jan-15	01-Jun-15	10-May-16	03-Oct-16	15-May-17	18-May-18	23-Jul-18
Weighted average share price (£)	£1.23	£1.43	£1.64	£2.54	£4.15	£7.74	£17.21	£18.56
Weighted average exercise price (£)	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01	£0.01
Fair value at measurement date (€)	€0.62	€1.10	€1.40	€1.73	€2.06	€4.96	€11.82	€12.90
Average expected life	3 Years	3 Years	3 Years	3 Years	3 Years	3 Years	3 Years	3 Years
Expected volatility	36.12%	31.20%	28.03%	27.17%	23.31%	24.79%	35.87%	35.87%
Risk free rates	0.50%	0.58%	0.90%	0.55%	0.08%	0.16%	0.89%	0.80%

	08-Jul-13	06-Jan-15	01-Jun-15	10-May-16	03-Oct-16	15-May-17	18-May-18	23-Jul-18	Total
Weighted average remaining life of options in months	-	-	-	4	9	17	29	31	15

LTIP's vest on the third anniversary of the grant, if the performance criteria are met. LTIPs must be exercised before the seventh anniversary of the grant.

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

Expected volatility was determined by reference to KWS volatility. 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.

18. Other Payables

Group	2018	2017 Restated (note 31)
	€'000	€'000
Current		
Accrued expenses	**16,671**	15,229
Payroll taxes	**2,338**	1,530
Other payables (ii)	**3,890**	2,986
Deferred and contingent consideration (i)	**18,249**	2,425
Related party payable (note 22)	**5**	9
	41,153	22,179
Non-current		
Other payables	**5**	16
Deferred and contingent consideration (i)	**1,057**	1,217
	1,062	1,233

(i) The movement in deferred and contingent consideration during the financial year was as follows:

Group	2018	2017 Restated (note 31)
	€'000	€'000
Opening balance	**3,642**	1,730
Consideration settled by cash	**(1,603)**	(298)
Consideration settled by shares	**(1,000)**	-
Unwinding of discount (note 6)	**311**	266
Additional liabilities from current year acquisitions (note 28, 29)	**17,068**	1,885
Fair value adjustment (note 5)	**766**	-
Translation adjustment	**122**	59
	19,306	3,642

In general, in order for contingent consideration to become payable, pre-defined profit and/or revenue targets must be exceeded. The valuation of contingent consideration is derived using data from sources that are not widely available to the public and involves a degree of judgement (Level 3 input in the fair value hierarchy). On an undiscounted basis, the Group may be liable for deferred and contingent consideration ranging from €0.6m to a maximum of €20.3m. A 10% movement in expected performance results, has no impact on the fair value of the contingent consideration, and hence there are no reasonably probable changes to the assumptions and inputs (including the discount rate), that would lead to a material change to the fair value of the total amount payable.

(ii) Other payables includes deferred income from contracts with customers of €312K (2017: €nil), which mainly comprise items invoiced prior to services being delivered. The movement in the year is comprised of transfers in and out as items are deferred and subsequently recognised as revenue.

19. Employee Defined Benefit Plans

In line with statutory requirements in Italy and India we are required to maintain employee defined benefit termination payment schemes.

In Italy, on leaving employment, each employee is entitled to 1/13.5 of their final salary for each year of service.
In India, on retirement at age 60, each employee with over 5 years service is entitled to 15/26 of their last drawn monthly 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 the cost of capital.

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

Group

	2018	2017
	€'000	€'000
Opening liability Italy at 1 January	**1,055**	826
Liability India recognised 1 January 2018	**188**	-
Service cost *	**247**	199
Interest cost	**32**	11
Benefits paid	**(117)**	(6)
Actuarial (gain) / loss recorded	**(27)**	25
Closing liability at 31 December	**1,378**	1,055

* Please note the comparative has been restated to reflect the current year presentation as the Directors have determined this presentation to be more meaningful.

The Directors have considered the key specific risk factors which the Group faces due to the employee defined benefit plans which are 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 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 Group's results caused by any of these factors. A maturity profile of the obligation is not presented as the liability is not significant in the context of the Group.

In 2019, 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.

	2018	2017
		Restated
Actuarial valuations	**€'000**	€'000
Defined benefit obligations	**1,378**	1,055
Future service liability	**3,214**	2,977
Value of accrued benefits *	**4,592**	4,032

* Please note the comparative has been restated to reflect the current year presentation as the Directors have determined this presentation to be more meaningful.

	2018	2017
Cost for year	**€'000**	€'000
Service cost	**247**	199
Interest cost	**32**	11
Actuarial (gain) / loss	**(27)**	25
	252	235

	2018	2017
Actuarial (gain) / loss	**€'000**	€'000
Change due to experience	**2**	17
Change due to demographical assumptions	**(38)**	30
Change due to financial assumptions	**9**	(22)
	(27)	25

Assumptions Underlying the Actuarial Valuations and Sensitivities of the Assumptions

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

Demographic Assumptions in respect of Italy, representing 84% of the overall liability;

- The probabilities of death were derived from the population demographics by age and sex, as recorded by the relevant Government Statistics Offices and reduced by 25%, while other key inputs were taken from relevant life assurance statistics.
- Certain inputs were estimated by management including
  - Employee attrition rates at 5.71% per annum.
  - Cash advances estimated on the basis of company history of 2.42% incidence of advance per annum and a drawdown rate equal to 57.25%.

Economic & Financial Assumptions	**2018**	2017
Salary increase	**3.08%**	2.76%
Inflation	**2.18%**	1.70%
Discount rate	**2.43%**	1.54%
Key Statistics		
Staff number	**558**	98
Average age (years)	**31.5**	39.3
Average service (years)	**3.4**	4.5
Average defined benefit per staff (€)	**2,301**	8,595
Average salary for defined benefit (€)	**8,647**	34,438
Interest Rate Sensitivities		
-0.25%	**1,456**	1,136
0.25%	**1,308**	983
Mortality Rate Sensitivities		
-0.025%	**1,379**	1,056
0.025%	**1,378**	1,055
Staff Turn Over Rate Sensitivities		
-0.50%	**1,389**	1,067
0.50%	**1,369**	1,045
Staff Salary Increases Rate Sensitivities		
-0.50%	**1,370**	1,029
0.50%	**1,390**	1,084

20. Capital Management, Loans and Borrowings

(i) Loans & Borrowings

Group

	2018 €'000	2017 €'000
Expiry within 1 Year	**40,071**	18,943
Expiry between 1 and 2 years	**-**	31
Expiry over 2 years	**230**	306

	40,301	19,280

In 2017, the Company had a facility in place with Barclays Bank which allowed financing of up to €25m of which €18.25m was drawn down at 31 December 2017. In 2018 the Company entered into a new Syndicated Bank revolving credit facility ('RCF'), completely replacing the existing facility. This transaction has been accounted for as an extinguishment of a financial liability under IFRS 9, along with the recognition of a new liability with the new lenders. There was no significant difference between the carrying value of the financial liability at the time of extinguishment and the settlement value of the loan.

The RCF allows financing of up to €75 million, with an option to increase this by €30m to a total of €105 million. The RCF extends to June 2021, with an option to extend this maturity date by a further 2 years.

As part of the facilities agreement, there are charges over the assets of the major subsidiaries of the Group and lenders require the Group to monitor and report interest cover and leverage ratios. Throughout the period, both ratios were well within permitted levels. Non-compliance with terms of the facilities agreement could result in lenders refusing to advance more funds, or in the worst case, calling in outstanding loans.

There were a number of drawdowns during the year to fund new acquisitions. Towards the end of 2018, excess funds of €10.1m were used to make a partial repayment of outstanding loans. As at 31 December 2018 the Group had €40 million outstanding, at a rate based on a margin over EURIBOR, plus a separate margin charged for the unutilised facility.

Loans owed by Enzyme at the end of 2017 of €0.4m reduced to €0.3m during 2018. Amounts owed by Sperasoft Inc. at the end of 2017 amounting to €0.6m were repaid during 2018.

Loans and borrowings (classified as financial liabilities under IFRS 9), are held at amortised cost. Interest expenses which are calculated using the effective interest method, are disclosed in note 6.

The currencies of these loans are as follows:

Group	**2018**	2017
	€'000	€'000
Euro	**40,000**	18,301
Canadian Dollars	**301**	347
US Dollars	**-**	632
	40,301	19,280

(ii) Capital management

Group	**2018**	2017
	€'000	€'000
Loans and borrowings	**40,301**	19,280
Less: cash and cash equivalents	**(39,871)**	(30,374)
Net debt / (net cash) position	**430**	(11,094)
Total equity	**192,375**	161,012
Net debt / (net cash) to capital ratio (%)	0.2%	-6.9%

The Group manages capital by monitoring debt to capital and net debt ratios. This debt to capital ratio is calculated as net debt to total equity. Net debt is calculated as total debt (as shown in the consolidated statement of financial position) less cash and cash equivalents. The liquidity risk and cash management for the Group is managed centrally by the Group treasury function. The Board receives projections on a monthly basis as well as information regarding cash balances. The Group's strategy is to preserve a strong cash base and secure access to finance at reasonable cost by maintaining a good credit rating.

21. Investment in Subsidiaries

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 2018 are set out below:

Name	Country of incorporation	Date of incorporation / acquisition	Proportion of voting rights and ordinary share capital held	Registered office
Keywords International Ltd	Ireland	13-May-98	100%	Whelan House, South County Business Park, Dublin 18, Ireland.
Keywords International Co Ltd	Japan	30-Nov-10	100%	5F, Aoba No.1 Bldg. 2-3-1 Kudanminami, Chiyoda, Tokyo, 102-0074 Japan.
Keywords International Inc	USA	26-Sep-12	100%	18300 Redmond Way, Suite 120, Redmond, WA 98052
KW Studios Limited	UK	29-May-13	100%	201 Temple Chambers, 3-7 Temple Avenue, London, England, EC4Y 0DT
Liquid Violet Ltd	UK	19-Jan-14	100%	Bryant House Bryant Road, Strood, Rochester, Kent, ME2 3EW
Keywords Studios QC-Games Inc. *(Formerly Babel Games Services Inc.)*	Canada (Quebec)	17-Feb-14	100%	1751 Richardson, suite 8400, Montréal, Québec, Canada H3K1G6
Babel Media USA Inc	USA	17-Feb-14	100%	1751 Richardson Office 8400, Montreal, Canada, H3K 1G6
Babel Media India Private Limited	India	17-Feb-14	100%	3rd floor, Vardhman Orchard Plaza, Plot No 4, LSC, West Enclave, Pitampura, New Delhi, 110034, India
Babel Media Ltd	UK	18-Feb-14	100%	Fifth Floor, 6 St. Andrew Street, London, EC4A 3AE
Keywords International Pte. Limited	Singapore	24-Apr-14	100%	20 Kallang Avenue, #06-6A, Lobby B, Pico Creative Centre, Singapore 339411
Keywords Studios Italy S.R.L. (*Formerly Binari Sonori S.R.L*)	Italy	08-May-14	100%	Via Egadi 2, Milano, MI, 20144, Italy
Binari Sonori America, Inc	USA	08-May-14	100%	350 N. Glenoaks Blvd., Suite 305, Burbank, CA 91502, USA
Binari Sonori Audio Productions LLC	USA	08-May-14	100%	350 N. Glenoaks Blvd., Suite 305, Burbank, CA 91502, USA
Lakshya Digital Private Limited	India	10-Oct-14	100%	3rd floor, Vardhman Orchard Plaza, Plot No 4, LSC, West Enclave, Pitampura, New Delhi, 110034, India
Edugames Solutions Private Limited	India	10-Oct-14	100%	D - 3/C, Munirka Flats, New Delhi - 110067
Lakshya Digital Singapore Pte. Ltd	Singapore	10-Oct-14	100%	20 Kallang Avenue, #06-6A, Lobby B, Pico Creative Centre, Singapore 339411
Keywords Studios QC-Tech Inc. *(Formerly Alchemic Dream Inc.)*	Canada (Quebec)	06-Jan-15	100%	1751 Richardson Street Suite 8400 Montreal QC H3K 1G6 Canada
Keywords International Barcelona SL	Spain	09-Jan-15	100%	Passeig de Gràcia 49, 1er2a, 08007 Barcelona, Catalonia, Spain
Keywords do Brasil Localizacao e Traducao Ltda *(Formerly Reverb Localizacao-Prearacao de Documentos Ltda)*	Brazil	18-Jan-15	100%	Av. Churchill, 109 - Sala 204 - Centro, Rio de Janeiro-RJ, Brazil CEP: 20020-050
Keywords (Shanghai) Information Technology Ltd	China	02-Apr-15	100%	142 Room, Building 7, No.311 Jin Gao Road, Pudong New District, Shanghai
Keywords Studios Spain SLU *(Formerly Kite Team SL*)	Spain	16-Jul-15	100%	Julián Camarillo 6A, 3B, 28037 Madrid, Spain
Kite Team Mex S.de R.L. de. CV (*Currently in process of changing name to Keywords Studios Mexico, S. DE R.L.DE C.V.*)	Mexico	16-Jul-15	100%	Av. Insurgentes Sur 1853, Guadalupe Inn, 01020 Ciudad de México, CDMX Mexico
Liquid Development	USA	20-Aug-15	100%	411 SW 2nd Ave #300, Portland,

LLC				OR 97204, USA
Keywords Asia Private Ltd (*Formerly Ankama Asia Pte Ltd*)	Singapore	22-Mar-16	100%	20 Kallang Avenue #06-6A, Lobby B Pico Creative Centre Singapore 339411
Synthesis Deutschland GmbH	Germany	12-Apr-16	100%	Holstenkamp 46 A, Bahrenfeld, 22525 Hamburg, Germany
Sillabit S.R.L	Italy	12-Apr-16	100%	Via Marco D'Oggiono, 12, Milano (MI) 20123, Italy
Synthesis Global Solutions SAS	Switzerland	12-Apr-16	100%	Corso Elvezia 16, 6900 Lugano, Ticino, Switzerland
Keywords Studios France SAS (*Formerly Keywords International SAS*)	France	08-Jun-16	100%	11 rue Torricelli, 75017 Paris, France
Player Research Ltd	UK	26-Oct-16	100%	2nd Floor, Claremont House, 95 Queens Road, Brighton, England, BN1 3XE
Keywords Studios QC-Interactive Inc. *(Formerly Enzyme Testing Lab Inc.)*	Canada (Quebec)	16-Nov-16	100%	1751 Richardson Street Suite 8400 Montreal QC H3K 1G6 Canada
SPOV Ltd	UK	17-Feb-17	100%	205-209 Hackney Road, London, England, E2 8JL
Xloc Inc.	USA	10-May-17	100%	712 Presnell Court, Raleigh, NC 27615-1240, USA
GameSim Inc.	USA	17-May-17	100%	12000 Research Parkway, Suite 436, Orlando, FL 32826, USA
Strongbox Ltd	Seychelles	22-May-17	100%	Suites 103, 106 and 107 Premier Building, Victoria, Mahe, Seychelles
Red Hot Software (Shanghai) Ltd	China	22-May-17	100%	Dong Ti Yu Hui Road #860, Building 5, 4th Floor, Shanghai, China
Red Hot Software (Zhengzhou) Ltd	China	22-May-17	100%	Room 207, 11th Floor, Building No. 3, No. 57 Ke Xue Da Dao, Zheng Zhou, He Nan, China
Eastern New Media Limited	Hong Kong	22-May-17	100%	Flat/Rm 4304, 43F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong
PT Limitless Indonesia	Indonesia	22-May-17	100%	Jl. Timoho II, No. 32, Yogyakarta,
Around the Word GmbH	Germany	28-Jul-17	100%	Rosenstrasse 2, D-10178 Berlin
d3t Ltd	UK	19-Oct-17	100%	201 Temple Chambers, 3-7 Temple Avenue, London, England, EC4Y 0DT
Keywords US Holdings Inc	USA	23-Oct-17	100%	1209 Orange Street, Wilmington, New Castle County, Delaware 19801, USA.
Keywords Canada Holdings Inc. *(Formerly Volt Canada Inc.)*	Canada (Quebec)	27-Oct-17	100%	1751 Richardson Street Suite 8400 Montreal QC H3K 1G6 Canada
Keywords Studios BC Inc. *(Formerly VMC Volt Information Sciences BC Inc.)*	Canada (BC)	27-Oct-17	100%	400-725 Granville Street, Vancouver, BC V7G 1G5, Canada
VMC Consulting Corporation	USA	27-Oct-17	100%	11611 Willows Road NE, Redmond, WA 98052, United States of America
Sperasoft Poland Spólka z.o.o.	Poland	13-Dec-17	100%	Ul. Na Kozłówce 27, 30-664 Kraków, Poland
Sperasoft Studios LLC	Russia	13-Dec-17	100%	196084, Russia, Saint-Petersburg, Kievskaya street, 5 - building
Sperasoft Inc	USA	13-Dec-17	100%	1013 Centre Road, Suite 403-B, Wilmington, DE 19805, USA
Keywords Studios Ltd	Ireland	27-Mar-18	100%	Whelan House, South County Business Park, Dublin 18, Ireland.
Keywords UK Holdings Limited	UK	28-Mar-18	100%	201 Temple Chambers, 3-7 Temple Avenue, London, England, EC4Y 0DT
Keywords Ventures Limited	UK	06-Apr-18	100%	8 Clifford Street, London, United Kingdom, W1S 2LQ
Cord World Wide Spain, SL	Spain	09-Apr-18	100%	Avenida Concha Espina 39 B28016, Madrid, Spain
Laced Music Ltd	UK	09-Apr-18	100%	201 Temple Chambers, 3-7 Temple Avenue, London, England, EC4Y 0DT
Cord Worldwide Ltd	UK	09-Apr-18	100%	201 Temple Chambers, 3-7 Temple Avenue, London, England, EC4Y 0DT
Cord Artists Management Limited	UK	09-Apr-18	100%	12-14 Denman Street, London, England, W1D 7HJ
Paleblue Limited	UK	09-Apr-18	100%	12-14 Denman Street, London, England, W1D 7HJ
Fire Without Smoke	UK	30-May-18	100%	98 Chingford Mount Road, South

Ltd				Chingford, London, E4 9AA
Fire Without Smoke Inc.	USA	29-May-18	100%	12701 Marblestone Drive, Suite 330, Woodbridge, Virgina, 22192 USA
Blindlight LLC	USA	11-Jun-18	100%	8335 Sunset Blvd. West Hollywood, CA 90069 USA
Snowed In Studios, Inc	Canada (Ontario)	19-Jul-18	100%	400 - 981 Wellington Street West Ottawa, Ontario K1Y 2Y1 Canada
Studio Gobo Limited	UK	20-Aug-18	100%	Unit 8 Hove Business Centre, Fonthill Road, Hove, East Sussex, BN3 6HA
Bitsy SG Limited	UK	20-Aug-18	100%	Unit 8 Hove Business Centre, Fonthill Road, Hove, East Sussex, United Kingdom, BN3 6HA
Electric Square Limited	UK	20-Aug-18	100%	Unit 8 Hove Business Centre, Fonthill Road, Hove, East Sussex, England, BN3 6HA
Alset Ltd	UK	20-Aug-18	100%	Unit 8, Hove Business Centre, Fonthill Road, Hove, United Kingdom, BN3 6HA
Itsy SGD Limited	UK	20-Aug-18	100%	Unit 8, Hove Business Centre, Fonthill Road, Hove, United Kingdom, BN3 6HA
d3t Development Ltd	UK	30-Aug-18	100%	201 Temple Chambers, 3-7 Temple Avenue, London, England, EC4Y 0DT
The TrailerFarm Limited	UK	18-Sep-18	100%	The Old Casino, 28 Fourth Avenue, Hove, East Sussex, BN3 2PJ

Post-acquisition, the Group reviews entities acquired to streamline activities and close any dormant entities acquired. Re-structuring details are set out below:

Name	**Country of Incorporation**	**Date of incorporation / acquisition**	**Proportion of voting rights and ordinary share capital held**	**Re-structuring details**	**Date of re-structuring**
Maximal Studio Audiovisuais Ltda	Brazil	22-Mar-18	100%	Merged into Keywords do Brasil Localizacao e Traducao Ltda	20-Sep-18
Keywords International Corporation Inc.	Canada	22-Dec-10	100%	Merged into Keywords Canada Holdings Inc.	01-Jan-19
Volta Creation Inc.	Canada	28-Jul-16	100%	Merged into Keywords Canada Holdings Inc.	01-Jan-19
Global Video Games Services Inc.	Canada	16-Nov-16	100%	Merged into Keywords Canada Holdings Inc.	01-Jan-19
La Marque Rose SARL	France	04-Aug-17	100%	Merged into Keywords Studios France SAS	04-Oct-18
AsRec SAS	France	28-Jul-17	100%	Merged into Keywords Studios France SAS	31-Aug-18
Dune Sound SAS	France	28-Jul-17	100%	Merged into Keywords Studios France SAS	30-Nov-18

Around the Word SAS	France	28-Jul-17	100%	Merged into Keywords Studios France SAS	30-Nov-18
GVGS Europe SARL	France	16-Nov-16	100%	Dissolved	26-Dec-18

22. 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 2018, P.E.Q. Holdings Limited owned 6.3% (2017: 6.5%) 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, on an arms length basis:

	2018	2017
	€'000	€'000
Operating Expenses		
Canteen charges	**44**	57
	44	57

The following are year-end balances owing by the Group:

	2018	2017
	€'000	€'000
Italicatessen Limited	**5**	9
	5	9

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

	2018	2017
	€'000	€'000
Operating Expenses		
Rental payment	**22**	22
	22	22

The details of key management compensation (being the remuneration of the Directors) are set out in note 10.

23. 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 invests 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

The Group's main financial assets are cash and cash equivalents, as well as trade and other receivables which represent the Group's maximum exposure to credit risk in connection with its financial assets.

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. Credit risk arising in the context of the Group's operations is not significant with the total bad debt provision at the balance sheet date amounting to 4.6% of gross trade receivables (2017: 1.5%), with the majority of the year over year increase attributable to one customer. Customer credit risk is managed at appropriate Group locations according to established policies, procedures and controls. Customer credit quality is assessed and credit limits are established where appropriate. Outstanding customer balances are regularly monitored and a review for indicators of impairment (evidence of financial difficulty of the customer, payment default, breach of contract etc.) is carried out at each reporting date. Significant balances are reviewed individually while smaller balances are grouped and assessed collectively. Receivables balances are unsecured and non-interest-bearing. The trade receivables balances disclosed comprise a large number of customers spread across the Group's activities and geographies with balances classified as "Not past due" representing 74% of the total trade receivables balance at the balance sheet date (2017: 61%). Trade and other receivables are carried on the statement of financial position net of bad debt provisions.

Group Treasury manage bank balances centrally, and monitors the credit rating and stability of the institutions the Group banks with.

The ageing of trade 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
At 31 December 2018	**37,019**	**27,504**	**7,996**	**1,519**
At 31 December 2017	27,473	16,713	9,126	1,634

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

	2018	2017
	€'000	€'000
Provision at the beginning of the year	**418**	468
Impairment of financial assets (trade receivables) charged to administration expenses	**2,055**	3
Foreign exchange movement in the year	**(30)**	-
Utilised	**(726)**	(53)
Provision at end of the year	**1,717**	418

Trade receivables loss allowance is estimated using a practical expedient to arrive at lifetime expected credit losses. Overdue receivables are evaluated to calculate an expected credit loss using a historical credit loss experience of 0.5% (2017: nil). Taking into account internal and external information, the historical credit loss experience may be adjusted where it is determined that there has been a significant increase in credit risk. Where there is evidence that a receivable is credit impaired, the impairment is recognised immediately, and impaired balances are removed from the expected credit loss calculation.

	Total	Not past due	1-2 months overdue	More than 2 months past due
	€'000	€'000	€'000	€'000

Trade receivables gross	**39,074**	**27,874**	**8,586**	**2,614**
Credit impaired	**(1,872)**	**(234)**	**(551)**	**(1,087)**
Expected credit losses	**(183)**	**(136)**	**(39)**	**(8)**
At 31 December 2018	**37,019**	**27,504**	**7,996**	**1,519**

Trade receivables gross	27,891	16,713	9,126	2,052
Credit impaired	(418)	-	-	(418)
Expected credit losses	**-**	**-**	**-**	**-**
At 31 December 2017	27,473	16,713	9,126	1,634

Related party receivables of €nil were past due at 31 December 2018 (2017: €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 in a currency other than the functional currency of the entity.

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 with 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 exposure 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 across 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% in those currencies against the Euro at the reporting date on the working capital balances would, all other variables held constant, have resulted in the following pre-tax profit / (loss) impact for the year:

	10% Strengthening 2018 €'000	**10% Weakening 2018 €'000**	10% Strengthening 2017 * €'000	10% Weakening 2017 * €'000
US Dollar to Euro	**2,140**	**(1,946)**	2,363	(2,148)
Canadian Dollar to Euro	**2,026**	**(1,842)**	1,267	(1,152)
Sterling to Euro	**884**	**(803)**	620	(564)

* Please note the comparatives have been amended to reflect current year presentation, as the Directors consider this presentation to be more meaningful

Total Financial Assets and Liabilities

The carrying amount of the financial assets and liabilities shown in the Group statement of financial position are stated at amortised costs, with the exception of contingent consideration held 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 financial liabilities:

Group

Year ended 31 December 2018	**Total**	**Within 1 year**	**1-2 years**	**2-5 years**
	€'000	**€'000**	**€'000**	**€'000**
Trade payables	**7,142**	**7,142**	**-**	**-**
Deferred and contingent consideration (i)	**19,306**	**18,249**	**1,057**	**-**
Other payables	**22,909**	**22,904**	**5**	**-**
Loans and borrowings	**40,301**	**40,071**	**-**	**230**
Loan interest	**55**	**55**	**-**	**-**

Year ended 31 December 2017	Total	Within 1 year	1-2 years	2-5 years
	€'000	€'000	€'000	€'000
Trade payables	7,310	7,310	-	-
Deferred and contingent consideration (i)	4,468	3,251	1,217	-
Other payables	19,770	19,754	16	-
Loans and borrowings	19,280	18,943	31	306
Loan interest	80	80	-	-

Deferred and contingent consideration at 31 December 2018 has arisen on business combinations, and is based on set amounts to be paid in the future to sellers under share purchase agreements.

24. Operating Lease Commitments

The Group occupies 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 two to five years and typically have a five-year break clause, with options to renew.
The total future value of the minimum lease payments is as follows:

Group

	2018	2017
	€'000	€'000
Not later than one year	**6,557**	4,561
Later than one year and not later than five years	**8,882**	10,708
Later than five years	**1,451**	4,793
	16,890	20,062

25. Finance Lease Commitments

The Group leases computer equipment and office telephone systems. Such assets are generally classified as finance leases, as the lease term equates 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. As the carrying value of assets under finance lease commitments are negligible, the net book value of the assets is not disclosed.

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

Group

	Minimum lease payments	**Interest**	**Present value**
	€'000	**€'000**	**€'000**
2018			
Not later			

than one year	**5**	**-**	**5**
Later than one year and not later than five years	**-**	**-**	**-**
Later than five years	**-**	**-**	**-**
	5	**-**	**5**
2017			
Not later than one year	25	1	24
Later than one year and not later than five years	20	4	16
Later than five years	-	-	-
	45	5	40

26. Deferred Tax

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

	Asset	**Liability**	**Net**	**(Credited) / charged to Income Statement**
	2018	**2018**	**2018**	**2018**
	€'000	**€'000**	**€'000**	**€'000**
Accelerated capital allowances	**-**	**1**	**(1)**	**1**
Defined benefit termination payments	**66**	**-**	**66**	**(3)**
Available losses	**875**	**-**	**875**	**40**
Rent free period provisions	**30**	**-**	**30**	**4**
Fixed asset tax base versus accounting book value	**558**	**71**	**487**	**(100)**
Deferred tax related to multimedia tax credits	**-**	**2,468**	**(2,468)**	**(112)**
Deferred tax arising on items deductible on a paid basis	**1,438**	**155**	**1,283**	**(415)**
Deferred tax arising on intangibles	**-**	**5,793**	**(5,793)**	**(1,448)**
Net tax assets / (liabilities)	**2,967**	**8,488**	**(5,521)**	**(2,033)**
Impact of change in tax rates	**-**	**-**	**-**	**(4)**
Prior year (over) / under provision	**-**	**-**	**-**	**(364)**
Total (credited) / charged to Income Statement	**-**	**-**	**-**	**(2,401)**

	Asset	Liability	Net	(Credited) / charged to Income Statement
	2017	2017	2017	2017
	€'000	€'000	€'000	€'000
Accelerated capital allowances	-	1	(1)	1
Defined benefit termination payments	32	-	32	(2)
Available losses	237	-	237	(162)
Rent free period provisions	17	-	17	13
Fixed asset tax base versus accounting book value	258	139	119	(33)

Deferred tax related to multimedia tax credits	-	2,284	(2,284)	132
Other temporary and deductible differences	581	112	469	(225)
Deferred tax arising on intangibles	81	5,259	(5,178)	(700)
Net tax assets / (liabilities)	1,206	7,795	(6,589)	(976)
Impact of change in tax rates	-	-	-	(149)
Prior year (over) / under provision	-	-	-	94
Total (credited) / charged to Income Statement	-	-	-	(1,031)

Please note that the comparative has been re-classified to reflect the current year presentation as the Directors have determined this presentation to be more meaningful.

The deferred tax not recognised on available losses at the period end is €3.9m (2017: €3.1m).

27. Investment in Associate

	2018 **€'000**	2017 €'000
Opening Balance	**-**	-
Investment in AppSecTest Limited	**226**	-
Post-acquisition changes in the Group's share of net assets	**(66)**	-
	160	**-**

In May 2018, the Group, through the newly established Keywords Ventures Ltd, invested £100k (€113k) in 15% of the share capital of AppSecTest Limited. Incorporated in the UK, AppSecTest is creating a cloud based automatic testing solution for mobile apps, including games (principally for GDPR compliance). A further investment of £100K (€113K) was made in September 2018 bringing the total investment to 30% of the share capital of the company. Under a shareholder agreement the Group is entitled to appoint one director to the board. Based on these factors, the Group consider that it has the power to exercise significant influence.

28. Business Combinations / Acquisitions Completed in the Current Year

	Cord €'000	Laced €'000	Maximal €'000	Fire Without Smoke €'000	Blindlight €'000	Snowed In €'000	Studio Gobo & Electric Square €'000	The Trailerfarm €'000	**Total** **€'000**
Date of acquisition	09-Apr-18	09-Apr-18	22-Mar-18	30-May-18	11-Jun-18	19-Jul-18	20-Aug-18	18-Sep-18	
Acquisition company jurisdiction	UK	UK	Brazil	UK	US	Canada	UK	UK	
Book value of identifiable assets and liabilities									
Property, plant & equipment	79	-	14	11	4	38	803	17	**966**
Intangible assets	362	-	-	-	-	-	-	-	**362**
Trade and other receivables - gross	1,135	126	22	810	256	48	3,558	98	**6,053**
Bad debt provision	-	-	-	(268)	-	-	-	-	**(268)**
Cash and cash equivalents	1,803	40	112	1,123	96	282	5,409	129	**8,994**
Trade and other payables	(1,455)	(224)	(271)	(419)	(128)	(122)	(1,404)	(51)	**(4,074)**
Net book value	1,924	(58)	(123)	1,257	228	246	8,366	193	**12,033**
Fair value adjustments									
Identifiable									

intangible assets - customer relationships	2,163	-	-	1,404	2,413	584	-	-	**6,564**
Deferred tax liabilities	(411)	-	-	(267)	(511)	(159)	-	-	**(1,348)**
Total fair value adjustments	1,752	-	-	1,137	1,902	425	-	-	**5,216**
Total identifiable assets	**3,676**	**(58)**	**(123)**	**2,394**	**2,130**	**671**	**8,366**	**193**	**17,249**
Goodwill	2,377	521	647	4,455	5,949	2,003	25,870	1,322	**43,144**
Total consideration	**6,053**	**463**	**524**	**6,849**	**8,079**	**2,674**	**34,236**	**1,515**	**60,393**
% Share capital acquired	100%	100%	100%	100%	100%	100%	100%	100%	
Satisfied by:									
Cash	4,907	320	345	4,726	3,097	1,822	17,015	925	**33,157**
Deferred cash	-	-	-	-	-	109	1,033	-	**1,142**
Deferred cash contingent on performance	-	-	179	574	3,655	-	11,164	354	**15,926**
Shares to be issued	1,146	143	-	1,549	1,327	743	5,024	236	**10,168**
Total consideration transferred	**6,053**	**463**	**524**	**6,849**	**8,079**	**2,674**	**34,236**	**1,515**	**60,393**
Number of shares									
Issued at the date of acquisition	**-**	-	-	-	-	-	-	-	**-**
Fixed amount agreed to be issued	65,550	8,194	-	77,006	64,521	37,983	254,529	11,070	**518,853**

Net cash outflow arising on acquisition	Cord	Laced	Maximal	Fire Without Smoke	Blindlight	Snowed In	Studio Gobo & Electric Square	The Trailerfarm	**Total 2018**
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	**€'000**
Cash	4,907	320	345	4,726	3,097	1,822	17,015	925	**33,157**
Less: cash and cash equivalent balances transferred	(1,803)	(40)	(112)	(1,123)	(96)	(282)	(5,409)	(129)	**(8,994)**
Net cash outflow - acquisitions	**3,104**	**280**	**233**	**3,603**	**3,001**	**1,540**	**11,606**	**796**	**24,163**
Related acquisition costs charged through to the Consolidated Statement of Comprehensive Income	104	20	8	138	4	57	388	39	**758**
Pre-acquisition revenue in 2018 H1	1,721	47	243	1,653	1,139	1,013	7,286	534	**13,636**
Pre-acquisition revenue in 2018 H2	-	-	-	-	-	-	2,064	331	**2,395**
Pre-acquisition revenue with Keywords Group	-	-	(243)	-	-	-	-	-	**(243)**
Post-acquisition revenue	2,864	510	180	2,641	2,653	1,210	8,195	662	**18,915**
2018 Pro forma revenue	**4,585**	**557**	**180**	**4,294**	**3,792**	**2,223**	**17,545**	**1,527**	**34,703**
Pre-acquisition profit / (loss) before tax	93	(10)	82	238	(143)	325	4,065	246	**4,896**
Post-acquisition profit / (loss) before tax	(196)	36	319	820	785	420	2,878	243	**5,305**
Pro forma profit / (loss)									

before tax	**(103)**	**26**	**401**	**1,058**	**642**	**745**	**6,943**	**489**	**10,201**

The acquisitions made in the year are in line with the Group's strategy to grow organically and by acquisition, as it selectively consolidates the highly fragmented market for video game services. The companies will bring additional talent, expertise and industry experience to Keywords' client base. Being able to offer the additional services to our clients will further enhance our reputation as the leading provider of services to the global video games industry.
The amounts recognised in respect of the identifiable assets acquired and liabilities assumed of acquisitions in the year are set out in the table above.

The main factors leading to the recognition of goodwill on the acquisitions are the presence of certain intangible assets in the acquired entities, which are not valued for separate recognition, such as:

- The expertise and music industry experience in Cord & Laced
- The expertise in high end video game trailers and reputation within the industry in Fire Without Smoke
- The expertise in voiceover production, celebrity acquisition and rights management, game writing, music, sound design and motion capture in Blindlight
- The expertise and additional scale to Keywords' new and growing video game development business in Snowed In and Studio Gobo & Electric Square
- The experience and expertise in producing trailers for the marketing and support of video games in The Trailerfarm

The total amount of goodwill arising on business combinations completed in the current year, that is expected to be deductible for tax purposes was €nil.

29. Business Combinations / Acquisitions completed in 2017

	Spov Ltd. €'000	XLOC €'000	Gamesim €'000	Red Hot €'000	Around the Word €'000	Asrec €'000	Le Marque Rose €'000	d3t €'000	VMC €'000	**Restated** Sperasoft €'000	Lola €'000	**Restated** Total €'000
Date of acquisition	17-Feb-17	10-May-17	17-May-17	22-May-17	28-Jul-17	04-Aug-17	04-Aug-17	19-Oct-17	27-Oct-17	13-Dec-17	15-Dec-17	
Acquisition company jurisdiction	**UK**	**US**	**US**	**China**	**France**	**France**	**France**	**UK**	**US / Canada**	**Russia / US**	**Mexico**	
Book value of identifiable assets and liabilities												
Property, plant & equipment	30	7	13	230	342	123	148	188	1,834	1,053	13	**3,981**
Trade and other receivables - gross	16	33	768	975	2,142	49	598	602	18,255	3,890	147	**27,475**
Bad debt provision	-	-	-	-	-	-	-	-	-	(944)	-	**(944)**
Cash and cash equivalents	-	120	26	584	497	76	494	802	-	587	43	**3,229**
Trade and other payables	(139)	(73)	(353)	(356)	(2,067)	(115)	(504)	(678)	(3,192)	(2,710)	(118)	**(10,305)**
Corporation tax payable	-	-	-	(64)	-	-	-	-	(150)	(86)	-	**(300)**
Deferred tax liabilities	-	-	-	-	-	-	-	-	(1,408)	(46)	-	**(1,454)**
Loan	-	-	-	(0)	-	-	-	-	-	(1,022)	-	**(1,022)**
Net book value	(93)	87	454	1,369	914	133	736	914	15,339	722	85	**20,660**
Fair value adjustments												
Identifiable intangible assets - customer relationships	-	147	-	1,465	651	-	-	-	13,245	3,454	-	**18,962**
Deferred tax liabilities	-	(59)	-	(366)	(217)	-	-	-	(2,781)	(691)	-	**(4,114)**
Total fair value adjustments	-	88	-	1,099	434	-	-	-	10,464	2,763	-	**14,848**
Total identifiable assets	**(93)**	**175**	**454**	**2,468**	**1,348**	**133**	**736**	**914**	**25,803**	**3,485**	**85**	**35,508**
Goodwill as reported	491	652	3,828	2,513	3,495	577	1,293	2,886	32,128	18,206	784	**66,853**
Measurement period adjustment (note 31)	-	-	-	-	-	-	-	-	-	(945)	-	**(945)**
Goodwill (restated)	491	652	3,828	2,513	3,495	577	1,293	2,886	32,128	17,261	784	**65,908**
Total consideration	**398**	**827**	**4,282**	**4,981**	**4,843**	**710**	**2,029**	**3,800**	**57,931**	**20,746**	**869**	**101,416**
% Share capital acquired	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	Asset Purchase	
Satisfied by:												

Cash	351	643	2,888	3,514	2,500	610	2,029	3,127	57,931	16,733	405	**90,731**
Equity instruments	-	184	1,394	-	-	100	-	673	-	-	-	**2,351**
Deferred cash (restated)	47	-	-	-	1,543	-	-	-	-	-	295	**1,885**
Shares to be issued (restated)	-	-	-	1,467	800	-	-	-	-	4,013	169	**6,449**
Total consideration transferred	**398**	**827**	**4,282**	**4,981**	**4,843**	**710**	**2,029**	**3,800**	**57,931**	**20,746**	**869**	**101,416**
Number of shares												
Issued at the date of acquisition	**-**	19,134	151,725	-	-	9,534	-	42,368	-	-		**222,761**
Fixed amount agreed to be issued	**-**	-	-	160,842	66,262	-	-	-	-	252,248	10,106	**489,458**

Net cash outflow arising on acquisition	Spov Ltd. €'000	XLOC €'000	Gamesim €'000	Red Hot €'000	Around the Word €'000	Asrec €'000	Le Marque Rose €'000	d3t €'000	VMC €'000	Sperasoft €'000	Lola €'000	**Total 2017** €'000
Cash	351	643	2,888	3,514	2,500	610	2,029	3,127	57,931	16,733	405	**90,731**
Less: cash and cash equivalent balances transferred	-	(120)	(26)	(584)	(497)	(76)	(494)	(802)	-	(587)	(43)	**(3,229)**
Settled in 2018 re 2017 acquisitions	-	-	-	(321)	-	-	-	-	-	-	(405)	**(726)**
Net cash outflow - acquisitions	**351**	**523**	**2,862**	**2,609**	**2,003**	**534**	**1,535**	**2,325**	**57,931**	**16,146**	**(43)**	**86,776**
Related acquisition costs charged through to the Consolidated Statement of Comprehensive Income	9	9	3	70	435	-	-	36	1,690	82	2	**2,336**
Pre-acquisition revenue in 2017 H1*	4	243	1,532	2,266	3,518	265	1,154	1,547	23,582	8,902	449	43,462
Pre-acquisition revenue in 2017 H2	-	-	-	-	588	44	193	903	16,979	8,378	548	27,633
Adjustment for pre-acquisition trading with Keywords Group	-	-	-	-	(575)	(43)	(189)	-	-	-	(997)	(1,804)
Post-acquisition revenue	208	236	2,266	3,980	2,048	571	1,154	560	7,769	798	-	19,590
2017 Pro forma revenue	**212**	**479**	**3,798**	**6,246**	**5,579**	**837**	**2,312**	**3,010**	**48,330**	**18,078**	**-**	**88,881**
Pre-acquisition profit / (loss) before tax*	(10)	82	64	305	(313)	(32)	(151)	120	2,358	(1,007)	68	1,484
Post-acquisition profit / (loss) before tax*	(203)	(114)	397	848	313	141	191	(7)	804	(34)	-	2,336
Pro forma profit / (loss) before tax	**(213)**	**(32)**	**461**	**1,153**	**-**	**109**	**40**	**113**	**3,162**	**(1,041)**	**68**	**3,820**

** Restated to exclude revenue from one contract that did not novate to VMC post acquisition and information that was not available when preparing the FY17 Annual Report*

The acquisitions made in the prior year are in line with the Group's strategy to grow organically and by acquisition, as it selectively consolidates the highly fragmented market for video game services. The companies will bring additional talent, expertise and industry experience to Keywords' client base. Being able to offer the additional services to our clients will further enhance our reputation as the leading provider of services to the global video games industry.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed of our acquisitions in the year are set out in the table above.

The main factors leading to the recognition of goodwill on the acquisitions are the presence of certain intangible assets in the acquired entities, which are not valued for separate recognition, such as

- Expertise in art services and reputation within the industry in Spov
- Expertise in localization processes and reputation within the industry in XLOC
- The expertise in simulation technology for the games industry in Gamesim
- Broader access to the Chinese pool of video game art talent, which is the largest in the world, and expertise in art service for the games industry in Red Hot
- Expertise in audio service for the games industry and reputation in the French entities
- A software development team with capabilities including HD re-mastering, porting, optimisation, rendering and game systems and reputation within the industry in d3t

- Expertise in art and engineering services for the games industry and reputation in Sperasoft.

The total amount of goodwill arising on business combinations completed in 2017, that is expected to be deductible for tax purposes was €nil.

30. Supplementary Information to the Statement of Cash Flows

Group Movement on Loans

	Current €'000	Non-current €'000	Total €'000
Balance at 1 January 2017	8,025	345	8,370
Cash flows:			
Cash received via additional loans in the year	10,250	-	10,250
Repayment of loans	(23)	-	(23)
Non-cash flows			
Amounts recognised on business combinations	632	51	683
Non-current transferred to current	59	(59)	-
Balance at 31 December 2017	**18,943**	**337**	**19,280**
Cash flows:			
Cash received via additional loans in the year	**31,850**	**-**	**31,850**
Repayment of loans	**(10,835)**	**-**	**(10,835)**
Non-cash flows			
Foreign exchange difference on Canadian loans	**6**	**-**	**6**
Non-current transferred to current	**107**	**(107)**	**-**
Balance at 31 December 2018	**40,071**	**230**	**40,301**

31. Measurement Period Adjustment

Group	Deferred consideration €'000	Shares to be issued €'000	Goodwill €'000	Other payables (current) €'000
	note 18	note 16	note 11	note 18
As reported 31 December 2017	4,468	11,739	109,007	23,005
Measurement period adjustment	(826)	(119)	(945)	(826)
Restated 31 December 2017	3,642	11,620	108,062	22,179

Goodwill recognised on the acquisition of Sperasoft has been reduced by deferred cash consideration withheld of €826K and a reduction in shares to be issued of €119K under an acquisition agreement warranty claim, which occurred within the measurement period.

Details of the restated purchase consideration and the restated goodwill are as follow:

Sperasoft Acquisition Accounting - extract	Deferred consideration €'000	Shares to be issued €'000	Goodwill €'000
As reported 31 December 2017	826	4,132	18,206

Measurement period adjustment	(826)	(119)	(945)
Restated 31 December 2017	-	4,013	17,261

Full details of the restated purchase consideration, the restated goodwill and the fair value of identifiable assets and liabilities acquired as measured at the acquisition date, together with the other disclosures relevant to the acquisition as reported, are presented in note 29.

The 2017 Group comparatives have been restated in these financial statements to include the effect of the adjustments noted. Under paragraph 10(f) of IAS 1 Presentation of financial statements, this restatement would ordinarily require the presentation of a third consolidated statement of financial position as at 31 December 2017. However, as the restatement would have no significant effect on the statement of financial position as at that date, the Directors do not consider that this would provide useful additional information and, in consequence, have not presented a third consolidated statement of financial position due to the restatement of prior period business combinations.

32. Events after the Reporting Date

Acquisition of Sunny Side Up Creative Inc.
On 4 January 2019, Keywords Canada Holdings Inc. acquired the entire issued share capital of Sunny Side Up Creative Inc. ("Sunny Side Up"). Based in Quebec City, Canada, Sunny Side Up produces high quality marketing assets for game publishers and developers including game trailers, key art assets and motion graphic production. The total consideration for the acquisition is CAD$5.9m, of which CAD$4.75m was paid in cash on completion, CAD$0.35m will be paid 18 months after the acquisition (subject to certain conditions being met) and the balance of the consideration is to be met through the issue of 60,179 new ordinary shares in Keywords on the first anniversary of the acquisition and will then be subject to orderly market provisions for a further 12 months.

Acquisition of the GetSocial business and assets
On 18 February 2019, Keywords Studios Netherlands BV and Keywords International Limited acquired the assets and business of GetSocial B.V. ("GetSocial") a company based in The Hague, Netherlands. GetSocial is a cloud-based software platform that provides a suite of functions that enable games developers to manage all social interactions between their games and their players plus their friends' networks. GetSocial works with Android, iOS and Unity apps, and supports interactions on most social media and messaging platforms including Facebook, Instagram and WhatsApp. The total consideration for the acquisition is €170K paid in cash.

Alternative Performance Measures

The group reports certain alternative performance measures that are not required under IFRS. The group believes that these measures, in conjunction with our IFRS financial information, provide investors with meaningful understanding of the underlying financial and operating performance of the group. These measures are key for the ongoing assessment of performance by the board and management of the group.

The measures are used to:

- Assess and monitor the underlying trends of our results of our operations
- Explain the group performance to the investor analyst community
- Set internal management targets

These measures can have limitations as analytical tools and therefore should not be considered in isolation, or as a substitute for IFRS measures. Other companies may calculate similarly named measures using different bases of calculations, and therefore they may not be comparable.

The principal measures used by the group, with reconciliations to reported IFRS measures as reported, are as follows:

Adjusted Operating Costs

This comprises administration expense as reported on the Consolidated Statement of Comprehensive Income, before non-operating costs including; share option costs, costs of acquisitions and integration, amortisation, depreciation, and including bank charges.

Calculation	Reference in Financial Statements	2018 €000	2017 €000	2016 €000
Administrative Expenses	Consolidated Statement of Comprehensive Income	73,123	38,650	25,219
Less Non-Operating Costs				
Share option expense	Consolidated Statement of Comprehensive Income	(4,129)	(1,426)	(686)
Costs of acquisition and integration	Consolidated Statement of Comprehensive Income	(5,296)	(3,016)	(1,316)
Amortisation of intangible assets	Consolidated Statement of Comprehensive Income	(6,872)	(3,038)	(1,629)
Non-controlling Interest				(61)
Depreciation	Note 5	(5,316)	(2,730)	(1,803)
Bank Charges	Note 6	503	320	229
Adjusted Operating Costs		**52,013**	**28,760**	**19,953**
Revenue from contracts with customers	Consolidated Statement of Comprehensive Income	250,805	151,430	96,585
Adjusted operating costs as a % of revenue		**20.7%**	**19.0%**	**20.7%**

Adjusted EBITDA

Adjusted EBITDA comprises gross profit, less the adjusted operating costs, less the share of post-tax losses on the equity accounted associate.

Calculation	Reference in Financial Statements	2018 €'000	2017 €'000	2016 €'000
Gross profit	Consolidated Statement of Comprehensive Income	95,808	55,085	36,678
Adjusted Operating Costs	As Above	(52,013)	(28,760)	(19,953)
Share of post-tax profits of equity accounted associates		(66)		
Adjusted EBITDA		**43,729**	**26,325**	**16,725**
Revenue from contracts with customers	Consolidated Statement of Comprehensive Income	250,805	151,430	96,585
Adjusted EBITDA as a % of revenue		**17.4%**	**17.4%**	**17.3%**

Adjusted Profit before Tax

Adjusted Profit before tax comprises adjusted EBITDA less interest and depreciation.
Adjusted profit before tax comprises profit before tax as reported on the Consolidated Statement of Comprehensive Income, before non-operating costs including share option costs, costs of acquisitions and integration, amortisation, and foreign exchange gains and losses.

Calculation	Reference in Financial Statements	2018 €'000	2017 €'000	2016 €'000
Adjusted EBITDA	As Above	43,729	26,325	16,725
Less non-operating Costs;				
Interest Expense*	Note 6	(502)	(578)	(152)
Interest Received	Note 6		26	94
Depreciation	Note 5	(5,316)	(2,730)	(1,803)
Adjusted Profit before Tax		**37,911**	**23,043**	**14,864**
Revenue from contracts with customers	Consolidated Statement of Comprehensive Income	250,805	151,430	96,585
Adjusted Profit before Tax as a % of revenue		**15.1%**	**15.2%**	**15.4%**

** The prior year comparative has not been re-classified to reflect current year presentation as the differences are not significant*

Adjusted Effective Tax Rate

The Adjusted effective tax rate is the tax expense as reported on the Consolidated Statement of Comprehensive Income, as a percentage of the adjusted profit before tax.

Calculation	Reference in Financial Statements	**2018 €'000**	**2017 €'000**	**2016 €'000**
Adjusted Profit before Tax	As Above	37,911	23,043	14,864
Tax expense	Consolidated Statement of Comprehensive Income	7,191	4,731	3,223
Adjusted Effective Tax Rate	Calculation; Tax expense / Adjusted profit before Tax	**19.0%**	**20.5%**	**21.7%**

Adjusted earnings per share

The adjusted profit after tax comprises the adjusted profit before tax, less the tax expense as reported on the Consolidated Statement of Comprehensive Income.
The adjusted earnings per share comprises the adjusted profit after tax over the non-diluted weighted average number of shares as reported on note 8.

Calculation	Reference in Financial Statements	**2018 €'000**	**2017 €'000**	**2016 €'000**
Adjusted Profit before Tax	As Above	37,911	23,043	14,864
Tax expense	Consolidated Statement of Comprehensive Income	(7,191)	(4,731)	(3,223)
Adjusted Profit after Tax		30,720	18,312	11,641
Denominator (weighted average number of equity shares)	Note 8	64,335,162	58,720,884	55,918,481
		€ c per share	**€ c per share**	**€ c per share**
Adjusted Earnings per Share	Calculation; Adjusted Profit after Tax / weighted average number of shares	**47.75**	**31.18**	**20.59**
Adjusted Earnings per Share % growth		**53%**	**51%**	**62%**

Return on Capital Employed (ROCE)

ROCE represents adjusted profit before tax, including pre-acquisition profit and excluding interest expense, expressed as a percentage of the average total capital employed. As the group continue to make multiple acquisitions each year, the calculation adjusts the profit before tax and the capital employed as if all the acquisitions made during each year were made at the start of that year.

Total adjusted profit before tax (continuing) therefore comprises adjusted profit before tax, plus the add backs of net interest costs and bank charges, plus pre-acquisition profits of current year acquisitions.

Capital employed represents equity as reported on the statement of financial position adding back cumulative amortisation of intangible assets and retirement benefits, acquisition related liabilities and adding the net borrowings.

Calculation	Reference in Financial Statements	2018 €'000	2017 €'000	2016 €'000
Adjusted Profit before Tax	As Above	37,911	23,043	14,864
Net Interest Cost	Note 6	502	552	152
Bank Charges	Note 6	503	320	229
Pre-Acquisition profits of current year acquisitions	Notes 28 and 29	4,896	1,484	2,040
Adjusted Profit before Tax Tax including pre-acquisition profit excluding interest expense		**43,812**	**25,399**	**17,285**
Total equity	Statement of Financial Position	192,375	161,012	66,704
Retirement benefits	Note 19	1,378	1,055	826
Cumulative amortization on acquired Intangibles	Note 12	12,786	5,734	2,934
Acquisition Related Liabilities	Note 18	19,306	3,642	1,730
Borrowings	Note 20	40,301	19,280	8,370
Cash and cash equivalents	Statement of Financial Position	(39,871)	(30,374)	(17,020)
Capital Employed		**226,275**	**160,349**	**63,544**
Return on Capital Employed	Adjusted Profit before Tax including pre-acquisition profit excluding interest expense / Capital Employed	**19.4%**	**15.8%**	**27.2%**

** The prior year comparative has not been re-classified to reflect current year presentation as the differences are not significant*

Like for like revenue comparison at constant exchange rates

Like for like revenue at constant exchange rates is calculated by adjusting the prior year revenues comparison, by adding pre-acquisition revenues for the corresponding period of ownership, as presented in the current year results, and applying consistent foreign exchange rates in both years.

Free cash flow

Free cash flow represents net cash flow provided by operating activities, plus income taxes paid, less capital expenditure.

Calculation	Reference in Financial Statements	2018 €'000	2017 €'000	2016 €'000
Net cash provided by operating activities	Consolidated Statement of Cash Flows	32,180	16,658	14,822
Income taxes paid	Consolidated Statement of Cash Flows	6,304	5,454	2,129
Acquisition of property, plant and equipment	Consolidated Statement of Cash Flows	(9,440)	(3,803)	(2,306)
Free cash flow before tax		**29,044**	**18,309**	**14,645**

Adjusted free cash flow

Adjusted free cash flow is a measure of cashflow adjusting for capital expenditure that is supporting growth in future periods as measured by capital expenditure in excess of maintenance capital expenditure and is represented by free cashflow before tax plus capital expenditure in excess of depreciation

Calculation	Reference in Financial Statements	2018 €'000	2017 €'000	2016 €'000
Free cashflow before tax	As Above	29,044	18,309	14,645
Capital Expenditure in Excess of Depreciation -				
Acquisition of property, plant & equip.	Consolidated Statement of Cash Flows	9,440	3,803	2,306
Depreciation	Consolidated Statement of Cash Flows	(5,316)	(2,730)	(1,803)
Capital Expenditure in Excess of Depreciation	Calculation: Depreciation less Capital Expenditure	4,124	1,073	503
Adjusted Free cashflow		**33,168**	**19,382**	**15,148**

Adjusted cash conversion rate

Adjusted cash conversion percentage is the adjusted free cash flow as a percentage of the adjusted profit before tax:

Calculation	Reference in Financial Statements	2018 €'000	2017 €'000	2016 €'000
Adjusted Free cashflow	As Above	33,168	19,382	15,148
Adjusted Profit before Tax	As Above	37,911	23,043	14,864
Adjusted Cash Conversion Ratio	Free cashflow before tax & capex adjusted as a % of Adjusted Profit Before Tax	**87%**	**84%**	**102%**

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 2019.