Strengthening our market leading position

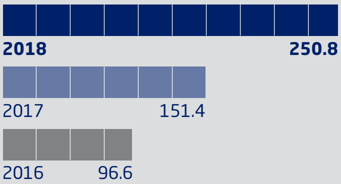
Annual Report and Accounts 2018

Keywords STUDIOS

Support | Deliver | Evolve

2018 Highlights

Revenue (€m)

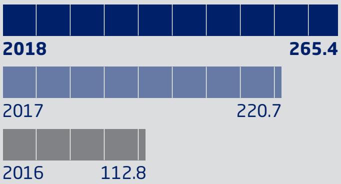


€250.8m

+66%

(growth in 2018 on 2017)

Proforma Revenue[1](€m)

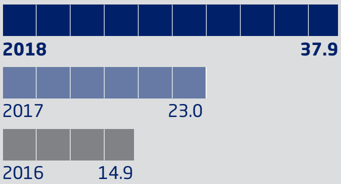


€265.4m

+20%

(growth in 2018 on 2017)

Adjusted Profit Before Tax[2] (€m)

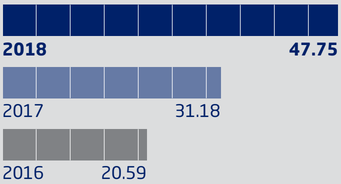


€37.9m

+65%

(growth in 2018 on 2017)

Adjusted Basic Earnings Per Share[2] (c)

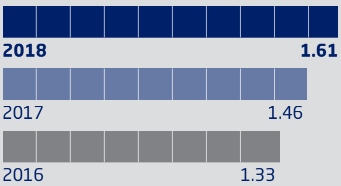


47.75c

+53%

(growth in 2018 on 2017)

Dividend per share (p)



1.61p

+10%

(growth in 2018 on 2017)

Alternative Performance Measures

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 see pages 105 to 107.

1 Pro forma revenue includes the annualised sales of all acquisitions made in each year, in order to provide a better overview of the balance of the business at the end of each year.

2 Adjusted Earnings Per Share and Profit Before Tax are calculated before one-time costs of acquisitions and integration, share option charges, amortisation of intangibles, and foreign exchange movements.

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At a Glance

A global, integrated service provider

The Group now has more than 50 studios strategically located in 40 cities worldwide providing full, integrated services by combining a presence that is local to our clients in key gaming clusters with lower cost production sites across four continents.

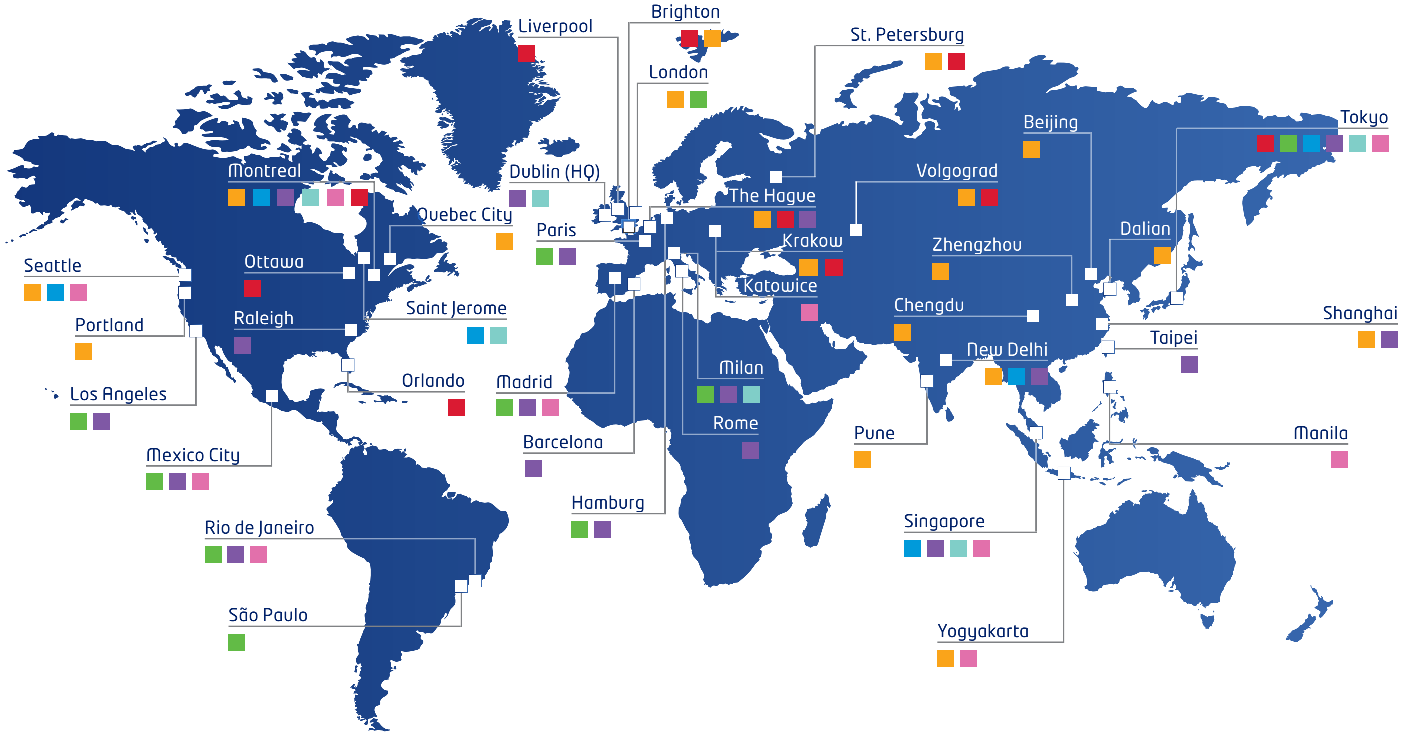
Since the beginning of 2018, we have expanded further organically and by acquisitions, adding to our capabilities in regions where we have an existing presence, including Brighton, Los Angeles, Sao Paulo, Katowice, Ottawa and London.

6,000+
People on the payroll at peak time

50+
Providing services across more than 50 languages

23
Serving 23 out of the top 25 games companies measured by revenue

52
Studios in 21 countries



See key on opposite page.

Keywords Studios continues to build world-leading capabilities in services that video game and similar interactive content creators need. We stand shoulder-to-shoulder with our clients working as their external or co-development partner to provide dedicated outsourced or embedded services, providing access to our teams of experts where and when needed, so they don't have to carry unnecessary fixed costs to cater for peaks in activity. Today we have breadth and depth in seven service lines.

Revenue breakdown by service:

Audio

Multi-language voiceover recording, original language voice production, Hollywood production, music management, sound effects & related services.

2018

€34.2m

+66%

(growth in 2018 on 2017)

Player Support

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

2018

€35.9m

+292%

(growth in 2018 on 2017)

Engineering

Game development services including full game development, co-development, porting of games from one platform to another including remastering, tool development and consulting services on a work for hire basis.

This also includes our proprietary software solutions for analytics, social media integration, procedural generation of art assets and player behaviour research consulting services

2018

€26.1m

+632%

(growth in 2018 on 2017)

Art Creation

The creation of video game graphical art, including concept art, 2D and 3D art asset production & animation. Marketing services including game trailers, marketing art and materials.

2018

€41.7m

+59%

(growth in 2018 on 2017)

Functional Testing

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 crowd based and focus Group testing solutions.

2018

€49.1m

+64%

(growth in 2018 on 2017)

Localization

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

2018

€44.0m

+5%

(growth in 2018 on 2017)

Localization Testing

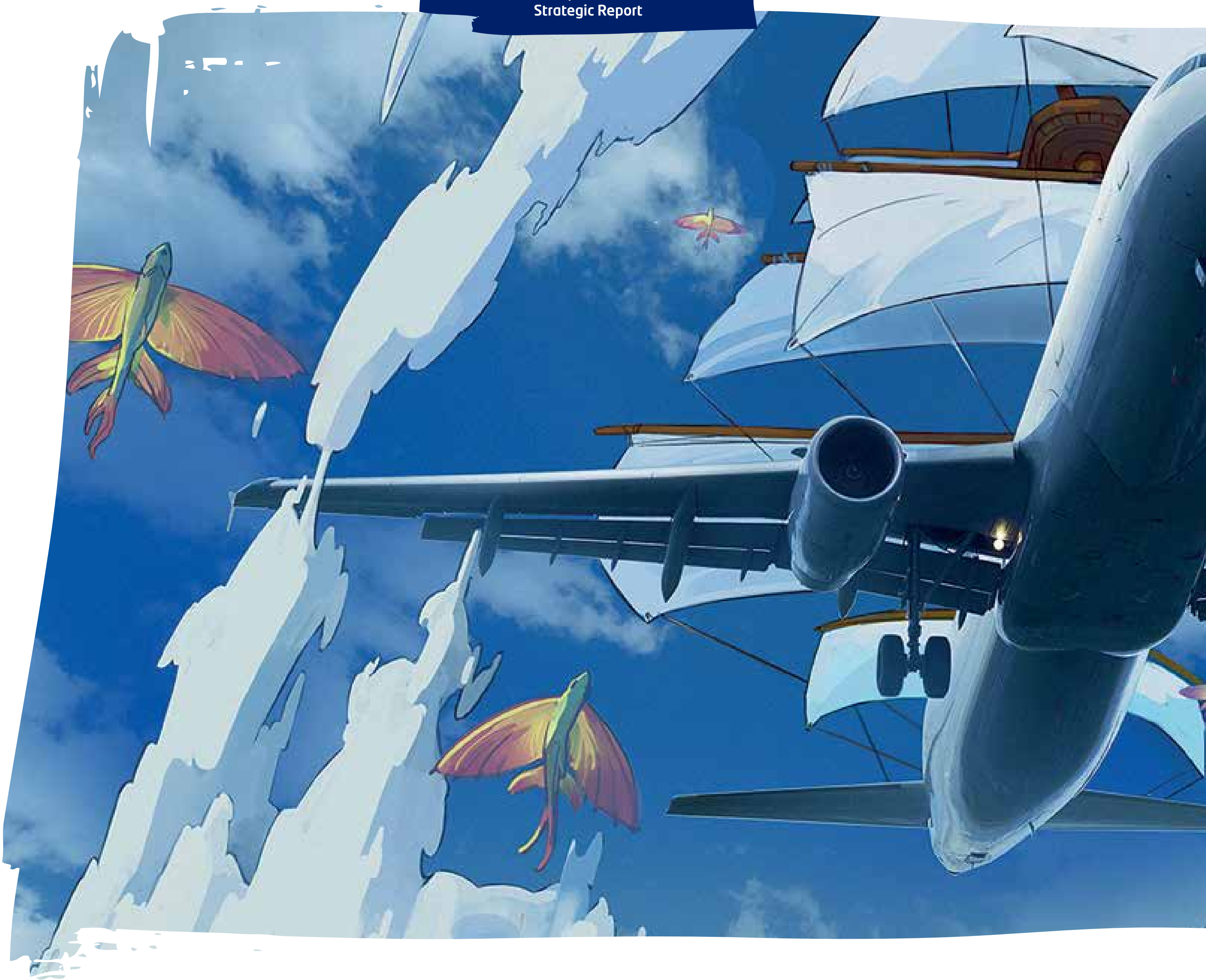
Testing for out of context translations, truncations, overlaps, spelling, grammar, age rating issues, geopolitical and cultural sensitivities and console manufacturer compliance requirements in over 30 languages using native speakers.

2018

€19.8m

0%

(growth in 2018 on 2017)



Investment Summary

A further strengthened offering from which to grow

Keywords is better placed than ever to continue to capture share of our robustly growing market by deepening our relationships with clients that already trust us with their high value IP, having significantly extended our services and geographical reach during the year.

We are a trusted partner to leading companies around the world, with a strong market position, providing services to 23 of the top 25 games companies and 9 of the top 10 mobile games publishers by revenue, including:

Access to a dynamic growth market

Keywords operates in a dynamic growth market but has minimal direct exposure to the successes or failures of individual game titles. Our focus on content means we are platform agnostic and well positioned to take advantage of the opportunities presented by mobile gaming, cloud streaming, next generation consoles and AR / VR. The increased sophistication of games and complexity of the video games market is driving demand for larger, professional, outsourced specialists, such as Keywords, in a highly fragmented supplier market. Outsourcing such work is attractive to developers and producers because it converts their fixed costs into variable costs, helps remove bottle-necks in capacity by providing access to talent as required and enables them to focus on their core competencies.

Market leading position

Keywords has a market leading position as the only global provider of fully integrated outsourced creative and technical services to the global video games industry. With an industry reputation for quality, reliability and flexibility, our scale and reputation mean we are well placed to take advantage of the trend for clients to move to more collaborative partnerships with fewer, larger suppliers.

Strong growth record

We continue to deliver strong Like-for-Like growth as we benefit from both the growth in our market and the trend towards greater outsourcing of our services. In addition, we have successfully acquired and integrated 37 acquisitions since IPO. The eight acquisitions we completed in 2018 bolstered our capabilities, particularly in engineering, data analytics, music and marketing services. In addition to extending our existing service lines to bring us even closer to our clients, we have continued to expand our geographical reach.

Opportunity to grow further

Having made strong progress in extending the Group's client base, market penetration, geographic footprint and service lines, we now see significant potential for increased cross-pollination of our service lines and geographic locations, including taking advantage of our dual shore capabilities which enable us to be close to our customers and provide services from lower cost studios, as we increasingly become strategic partners to our clients.

A strong business model

Keywords' flexible resourcing and charging model, with charges levied for time or output rather than a fixed price, combined with relatively low working capital and capital expenditure requirements support its ability to grow the business whilst also achieving strong cash conversion.

Adjacent market potential

Our expertise in providing outsourced solutions to the video games industry is already being sought after in adjacent markets such as film and television, and Keywords is well placed to deliver this.

Chairman's Statement

International scale and flexibility across markets are key

We are well placed to take advantage of the multiple opportunities afforded by our market as it grows in size and sophistication.

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[3] 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.

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 producer 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.

3 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.

We are also highly focused 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 Corporate Governance 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 Andrew Day, our CEO, 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, not only of services, but also in technical innovation, 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
8 April 2019

Our Culture

Pride in our people

Our culture acts as the glue that binds all Keywordians around the world together – relaxed, professional and humble with a focus on doing the very best we can for each and every project entrusted to us.

People that work at Keywords are passionate, talented, committed and resourceful. This culture creates an environment in which games-passionate individuals can work together with likeminded colleagues while enjoying the opportunity to work on most of the world's leading games ahead of their releases.

Working on around 250 games at any time in the year and more than 600 in total through the year, Keywords provides an excellent and sustainable variety of work, strong career progression and opportunities to work in many different locations.

There is a common thread to the culture of Keywords.

We recognise our role as professional services providers. We approach this humbly, doing the very best we can for our clients' projects with the confidence borne out of our deep expertise. We value our people; we trust them and work to support their passion to perform the best service for each project and each client. We have an inclusive style of management and run a tight ship.

Our priorities and areas of focus are summarised below:

Our People

- Training and development
- Integration
- Diversity
- Career advancement
- Equal opportunities

Our Customers

- Integrated efficient service
- Customer satisfaction
- Repeat business

Our Culture continued

We design our facilities as open plan to promote engagement and encourage knowledge sharing. At the core of our culture are our operating principles that we call the **"Keywords Rule of 9"**.

The Keywords Rule of 9

1. **Communication –** We communicate openly and in a timely fashion. We do not hide things from colleagues or clients and we avoid office politics.
2. **Project Focus –** We focus on projects, delivering the best we can for the benefit of each and every product we touch.
3. **Client Centricity –** We act as an extension of the client's organisation, moulding our processes and procedures to fit their requirements whilst sharing our knowledge of best practices.
4. **Empowerment –** We empower our people to perform to the best of their ability by providing them with the resources and environment to do their jobs and the tools to track and measure their performance.
5. **Passion for Games –** We are passionate about games and are proud of our role in helping to deploy them and we play an active role in the wider industry.
6. **Client Intimacy –** We love our clients (all of them) and want the best for them at all times.
7. **Positivity –** We have a "can do" attitude and rise to the challenge of solving our clients' problems.
8. **Flexibility –** We recognise the importance of flexibility and actively embrace it despite the obvious challenges. Flexibility is why we exist at all. Without it, clients would perform those tasks we do, themselves.
9. **Learning & Growing –** We learn at every opportunity and grow ourselves through experience, training and tackling new challenges.

Our People

An average of 5,238 employees make up our highly diverse and multicultural team and are well balanced across our three regions; 2,056 in The Americas, 1,267 in Europe, 1,915 in Asia. The number and diversity of people and skills in our workforce allows us to be perfectly placed to deploy these skills across the industry to meet all of our customers' needs.

As the growing games industry continues to produce more content and as industries as diverse as retail, urban planning, advertising, education, architecture and automotive, adopt the use of game engines to make their content more interactive and engaging, we see the demand for the skills we offer increase.

Our acquisition programme also brings fresh talent to the Group at all levels on a regular basis. We continue to be successful at integrating these new businesses and the talent they bring with them whilst providing opportunities for them to grow their careers across the Group and move between our various studios. This year we have added game programmers, game designers, software engineers, data scientists and machine learning specialists to our ever-growing Keywords family.

We provide equal opportunities for all of our colleagues, demonstrated by 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.

Real experiences

"The value of the Company is the value of its employees, and you certainly can say that for Keywords. Every colleague is a friend and, at the same time, a talented professional always ready to help. When you couple this great environment with the best products of the video game industry, satisfaction and motivation are the natural outcome."

Riccardo
QA & Support Co-Ordinator, Dublin

Our Customers

We are fortunate to be able to count most of the top global games developers as our customers. These companies expect the highest level of service and our diverse capabilities allow us to satisfy our customers' needs every time. Increasingly, these customers prefer to outsource multiple services to one service provider and this is where we are uniquely positioned to meet expectations.

We offer our clients flexible, scalable solutions that match their project requirements. Through our dedicated embedded services, we partner with our clients to provide the expertise of an in-house team and deliver flexible, in-house out-sourced solutions.

Keywords Studios Extra Life 2018

Community involvement and supporting good causes – throughout our local studios staff support local charities and good causes. One activity that involved multiple sites was Extra Life 2018 – In 2018, Keywords staff participated in a 24-hour gaming marathon which supports Children's Miracle Network Hospitals, raising over $10,000 for the cause.

Joining the Keywords Family

We are a highly acquisitive business and have some very strict criteria for our acquisition targets, by far the most important being cultural fit. Typically, if we think that there is a cultural misalignment then we won't even open the dialogue with the Company. Once we set our sights on an acquisition there is a process that we follow during the due diligence phase and after closing the acquisition to ensure seamless integration of the new studio and most importantly the new people, to ensure that from day one, they feel like part of the Keywords family, while, at the same time, appreciating the history and richness that the new company brings. A mark of our integration success is that half our senior executive team joined us through acquired companies.

Keywordians with their drive and talent make Keywords the global service provider that it is today, and it is essential for us that we continue to support our unique and diverse culture, which includes welcoming new faces and ensuring they feel just as supported and welcomed as their more established colleagues.

Keywords Studios – Extra Life 2018

$10,736
raised

3
teams with 40+ members

9
different locations in 5 countries

40+
games played through 16 live streams

187
over 187 hours played

Market Overview

Providing a global services platform to support the video games market

Keywords operates in an exciting high growth market, with exposure to most of the world's leading video games across all devices and all genres.

Continued market growth

The global games market for video games is fast moving and continually evolving. New gaming platforms, genres, monetisation models, distribution channels, and audiences keep coming. Not only this, but all manner of content providers are seeking to make their content more impactful and engaging. Interactive content is emerging everywhere and the lines between video games and e-learning, film and TV, simulation and e-retail are becoming increasingly blurred. Video games represent the most interactive of content types, and the tools, skills and production facilities needed to produce video games are now in demand from a much wider market. Keywords is hardware agnostic; rather our services support the production, the marketing and the support of the content itself in live operation.

Content revenues in the global games market reached $134.9bn in 2018 and are forecast to increase to $174.0bn in 2021. (Source: NewZoo Global Games Market 2018). The mobile games segment continues to grow fastest, and the Chinese market is now larger than the US despite the hiccup in 2018 that saw Chinese authorities blocking the publication of new games for 9 months – a situation which now appears to be getting back to normal.

> "The move towards 'games as a service' continues"

The move towards 'games as a service' continues and unlike the sale of one-time packaged product, this requires ongoing maintenance of the content, continually updating it with new worlds, characters, and items to purchase or win. The market for the provision of services to the games industry is evolving too. While the industry remains highly fragmented, customers are increasingly willing to outsource multiple services to proven providers of scale who can offer all of these under one umbrella, by way of strategic partnerships, as well as exploring more co-development, in which significant parts of, or even full games, are developed on behalf of game developers or game publishers. The trend towards increasing outsourcing at a more strategic level benefits Keywords as the largest and broadest provider, making it an increasingly attractive home for service providers with a narrower focus.

A high growth global video games market

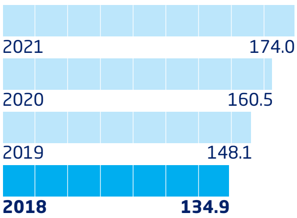
Global market
2018

$134.9bn

+10.8%

(growth on 2017 – ($121.7bn))

YoY ($Bn)



c.9% CAGR

(Source Newzoo, 2018)

> "Cloud gaming is poised to expand the market on a scale not seen since the introduction of mobile gaming."
>
> **Peter Warman, CEO Newzoo, November 2018**

> "There are 2 billion people who play video games on the planet today. We're not going to sell 2 billion consoles. Many of those people don't own a television; many have never owned a PC. For many people on the planet, the phone is their compute device. It's really about reaching a customer wherever they are, on the devices that they have."
>
> **Phil Spencer, Microsoft's Vice President of Gaming (March 2019)**

Cloud gaming / streaming and subscription platforms

Streaming games, Netflix style, and subscription platforms are a hugely exciting prospect following the initial publicity in January regarding Microsoft's streaming service, xCloud, the unveiling of Google's Stadia gaming platform in March 2019 and Apple's launch of its Arcade subscription-based games platform in March 2019. Presently, gaming can be costly for the user, with the requirement for high end gaming PCs, expensive consoles and high-end smartphones limiting the access to and uptake of some games. Streaming, and subscription services, have the potential to provide highly cost-effective distribution of content, making it available to more players, on more devices, in more countries, in more languages. All this requires more services; engineering to port games to new streaming platforms; localization into more languages; increased player support services; and of course, as the competition amongst these streaming platforms intensifies, demand for new content production is expected to grow just as it has done in film and TV with the likes of Netflix, Amazon, Apple, Disney, and Hulu.

New generation consoles

The current generation of PlayStation and Xbox games consoles first launched in 2013. Both companies are expected to launch completely new devices, with market rumours currently suggesting 2020 or 2021 are the most likely years for this. Unlike in the last console generation transition, in which publishers shifted very rapidly from content for the previous generation to new content for the current generation, this time we expect to see a different evolution thanks to the 'games as a service' model. We anticipate game publishers will want to continue to support existing content that is commercially successful while simultaneously producing new content that takes advantage of the power and features of the new consoles. We anticipate this doubling up will create added demand for our services.

Augmented reality, virtual reality and mixed reality

While VR in its first form didn't catch on as some were expecting, the hardware providers are continuing to reduce the size of the headsets and uncouple them from the PC or console. As these advances continue, so we expect video game content providers to continually explore the possibilities for this most immersive of experiences. In the meantime, we continue to work extensively in the field not only with game content but more and more in non-game related content of an educational and experiential nature. Augmented Reality, as represented by a range of solutions either on existing devices like mobile phones or with specialised headsets such as the Microsoft's HoloLens or Magic Leap One offers perhaps more immediate promise as seen with the early success of Pokémon Go but we don't see this a major driver for the business in 2019.

Our Business Model

Creating value and growth through operational efficiency

The video games industry represents the pinnacle of interactive digital content. At Keywords, we use our passion for games, technology and media to create a global services platform for video games and beyond.

Our key strengths

Global presence
Provides access to the best talent and enables us to deliver projects across studios in multiple time zones, allowing seamless 24-hour turnarounds whilst remaining close to our customers.

Flexible resource model
Particularly true of our testing business, this allows us to scale up or down to meet demand, mirroring the seasonality of games production.

Knowledge and expertise
Our talented people have deep games-specific knowledge and experience, enabling them to add value to our clients' games at all stages in the development lifecycle.

Reputation for quality
At the heart of our culture is our commitment to quality, reliability and integrating with our clients' processes promoting long-term customer relationships.

Financial strength
Our strong financial performance and position gives our customers reassurance of resilience in their supply chain and is part of our attraction to businesses we acquire.

Acquisition track record
We have a strong track record in identifying acquisitions with a good fit with Keywords in terms of culture as well as expertise or geography and integrating them effectively to support their growth.

Keywords' presence in each stage of the games development cycle creates multiple opportunities for cross selling and revenue growth.

#1 Pre-production
- Concept art
- Level design
- Game design

#2 Early stage game development
- Co-development
- Programming
- Art production
- Cinematics / visual effects
- Audio production
- Original language voice production
- Engineering
- Development quality assurance
- Game demo trailers
- Music scoring
- Sound design
- Story writing
- Motion capture

#6 New content for games
- Game extensions
- Level expansions
- Art
- Audio
- Testing
- Localization
- Marketing
- Issue patches

#5 Ongoing live operations support
- Customer support
- Community management
- Data analytics
- Payments processing
- Game analytics
- Social integration
- Customer retention
- Payments processing
- Promotions management

Services offered by Keywords

Services added by Keywords in 2018 -2019

Services not currently offered by Keywords

Our Business Model is supported by our Strategic Pillars:

Extending our range of services

Selective acquisitions

Organic growth and cross selling

Growing market share

Expanding geographic reach

Introducing technology

#3
Later stage game development

- Functional testing
- Text localization
- Audio localization
- Localization testing
- Player research
- Game porting
- Music branding and strategy

#4
Launch

- Certification testing
- Official game trailers
- Soundtrack and merchandise
- Marketing services
- Customer acquisition

Creating value for our stakeholders

By working as their external development partner, we enable leading content creators and publishers to leverage our expertise and capacity across the lifecycle of interactive content.

In so doing we enable our clients who are operating in complex and fast-moving environments to remain lean and agile, and to focus on creating and monetising the most engaging experiences.

We are trusted and relied upon by many of the world's leading video game companies to work alongside them during concept, development and live operations by leveraging the breadth and depth of our industry leading service lines every step of the way.

Keywords' presence in each stage of the games development cycle creates multiple opportunities for cross selling and revenue growth.

Investors

Consistent track record of delivering earnings and dividend growth.

Opportunity to invest in the exciting video games market, without the risk of exposure to the successes or failures of individual game titles.

Increase in Adjusted EPS since 2014[4]

53.7%

Customers

Our involvement across the video games cycle means that we can be a "one-stop-shop" for our global customers, meeting their requirements with a combination of on-demand and dedicated services facilitated through a wide geographic reach to talent and a flexible resource model. This allows our customers to outsource most aspects of game development enabling our customers to reduce the number of permanent staff that would otherwise be required to cater for peak activity, thereby converting fixed to variable costs and minimising their overall operating costs.

Customers using 3 or more services

99

up from 30 in 2014

Employees

Keywords provides employees with an excellent and sustainable variety of work, good career advancement opportunities and, increasingly, opportunities to work in many different locations.

Our customers can access a world class talent base without incurring any of the usual variable costs.

Average number of employees

5,238

up from 978 in 2014

4 Before acquisition and integration expenses, share option charges, amortisation of intangibles, and foreign currency exchange.

Our Strategy

To be the world's leading technical and creative services platform for the video games industry and beyond.

We continue to pursue our proven strategy of growing organically and through acquisitions to extend the Group's range of services, geographic reach and client base to achieve scale and become the "go to" services provider for each of our service lines. Where the Group can use its existing expertise, we continue to cross over into neighbouring markets such as film and television, e-learning and wider uses of interactive content more generally, generating synergies in a highly fragmented games service industry.

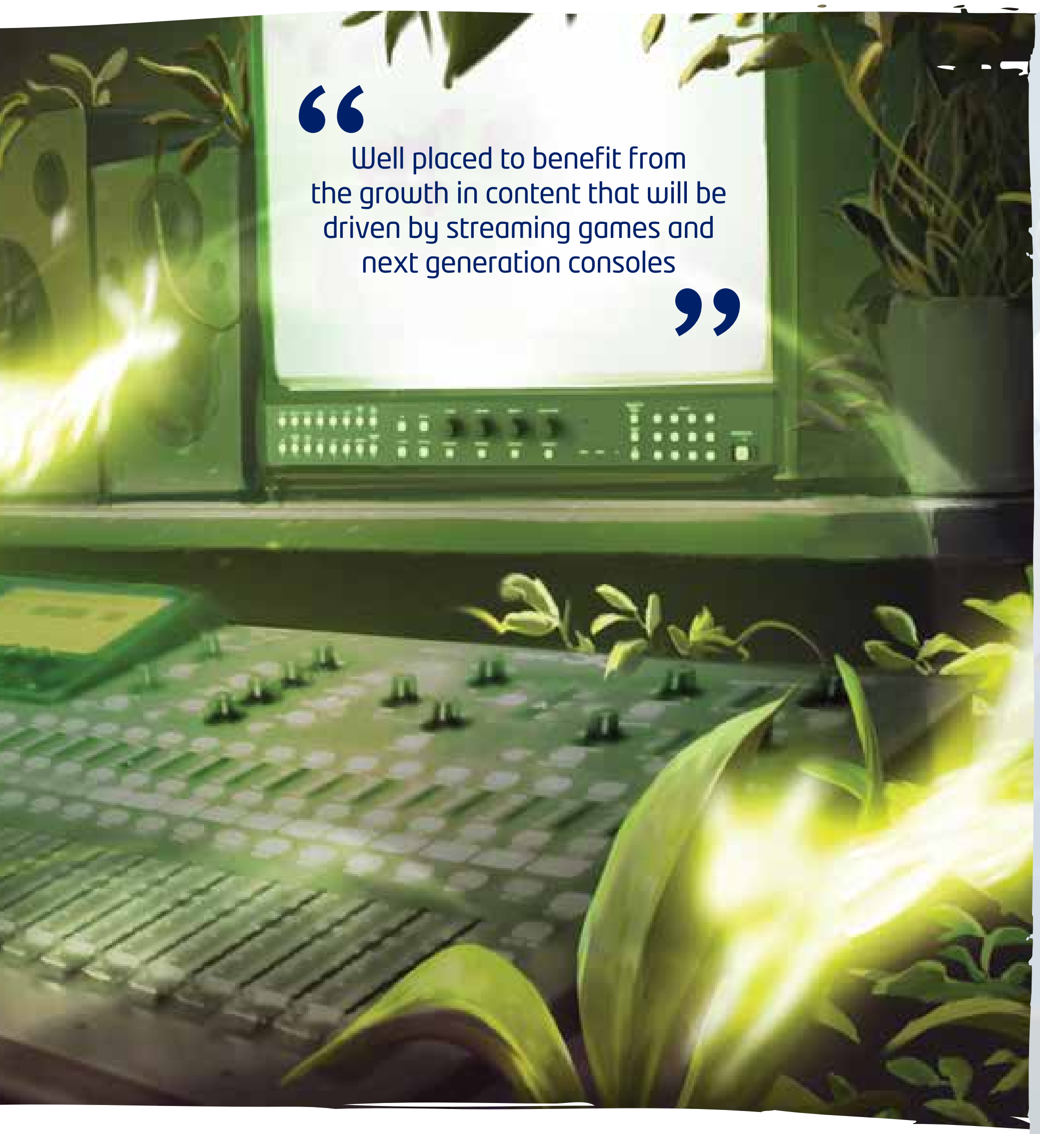
Each year, we continue to become more diversified and better balanced as a business, with an expanding range of services and with further locations to offer our clients. We see many opportunities to extend our existing relationships and become a strategic partner to major games companies, both through providing additional services to existing customers and through providing dedicated outsourced services.

Strategic Pillars	Progress in 2018
Extending our range of services	• Entered the marketing services arena with three acquisitions of video game trailer production companies. • Added music management capability for the first time enabling us to offer a service which is complementary to our voiced audio, game development and marketing services. • Landed a leading sound design and sound effects team and invested in studios to support them. • Welcomed a leading voice production company to the Group which also brings with it writing and motion capture management experience. • We are now offering video game analytics services and automated app testing for GDPR compliance.
Selective acquisitions	• Completed eight acquisitions during the year which added additional scale and expertise in our Engineering and Art services lines as well as in our Audio business. • These acquisitions are being integrated within the service lines as well as within the country and regional management structures and our global finance, accounting, HR and IT functions.
Organic growth and cross selling	• Like-for-Like revenue grew by 10.1% in 2018 or 14.9% Like-for-Like excluding VMC. • While this growth was lower than the Group had targeted, we faced some considerable market related headwinds in 2018 and we remain hopeful of double-digit growth in 2019.
Growing market share	• We continued to grow our service lines aiming to make them the "go to" providers for their respective sets of services. • We have considerable headroom in each of our service lines to continue to grow our market share.
Expanding geographic reach	• Opened our third location in Eastern Europe improving access to important talent pools. • Increased presence on the West Coast of the US, with operations in Hollywood and Burbank in Los Angeles, which again provide access to talent but also get us closer to the video game producers and publishers on the West Coast. • Grew our presence in the UK, given its reputation for creative and technical video game talent.
Introducing technology	• Continuous development of tools for internal use in making processes more efficient and in managing our businesses more effectively. • Our acquisitions of XLoc, Yokozuna Data, GetSocial and our investment in and exclusive commercialisation of AS Analyser provide access to technology solutions that can be provided as a service to clients.

Priorities in 2019	Measures of our Success
• With gaps in most of our services which can be filled with niche services, we will continue to acquire and invest in 2019 in expanding our palette of services. • Most notably, marketing services is likely to be the recipient of further investment in growth in 2019 and may come to form our eighth fully fledged service line during the year.	**7** Seven service lines, up from two in 2009, four in 2013 and six in 2016.
• The Group's acquisition programme continues to be an important feature and we anticipate that 2019 will yield a similar number and value of acquisitions as previous years. • We are mindful of the integration challenges and therefore acquisitions will likely be spread across geographies and across services lines to avoid management overstretch.	**4-10** Between 4-10 acquisitions per year. €30m to €80m invested.
• Our principal focus will remain on organic growth, as in previous years, and we expect to grow faster than the market for our services as we capture market share. • A key measure of our success is how 'relevant' we are to our clients, as evidenced by the growth in the number of our clients and also how many services each of our clients is using.	Organic growth materially ahead of market growth. In 2018, the number of clients buying three or more services from us increased once again, to 99 from 93 in 2017. Overall customer numbers increased by 31% to 846 compared to 646 in 2017.
• We have much to do to grow all our service lines to the point Localization Services has reached in being the "go to" provider. • We will seek to add to our capabilities in marketing, in Engineering and in Audio as we have been doing over the last year, as well as more in Player Support. • Our testing businesses have achieved critical mass in North America but remain underweight in Europe and Asia and we will seek to rebalance this over the coming years.	Critical mass in each service line provides scale, increased flexibility, improved efficiencies and deeper expertise. Achieving critical mass comes through organic growth, led by cross selling and new client acquisition activities, and can be accelerated by selective acquisitions of similar businesses.
• Geographic reach has been a decreasing driver for us as we have now expanded our reach onto many of our key target regions and while we would like to have a presence in territories like Korea, and a wider base in Eastern Europe, these aren't essential priorities for 2019.	We have a good spread of talent across three continents, with about 39% of our people in North America, 24% in Europe and 37% in Asia.
• Keywords will continue to develop and acquire software solutions to support the services we provide to game developers and game publishers. • Keywords Ventures (which is described in more detail in the Chief Executive's Review) is also active in assessing technologies being developed for games or related markets where we believe we can add value in terms of modest financial support coupled with our global market reach in games.	Supporting internal innovation and tool development including our newly initiated Keywords Innovate programme. Selective acquisitions of software solutions that complement our services. Yokozuna Data was acquired in July 2018. GetSocial acquired in February 2019. Venture investments and associated commercial agreements such as the recent investment in GDPR compliance testing solution, AS Analyser, by Keywords Ventures.

Chief Executive's Review

A strong performance



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

ENGINEERING

Starting with the acquisition of GameSim in May 2017, our Engineering Services Line now comprises 7 companies in 8 locations.

Possibly better described as game development services, we collaborate with our clients to deliver richer definition for their video gaming titles, learning applications or visualisation and simulation experiences. We provide a range of services from the creation of complete games; the co-development of games alongside our clients in which we assume responsibility for a part of the game; ongoing live support in which we continue to add features, expansions, new items, new characters to the game; the porting of games from one platform to another or from one hardware generation to another, with or without remastering of the content; troubleshooting services; and the provision of teams to work alongside our clients as an extension to their teams.

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 ever extending 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 extend 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.

Chief Executive's Review
continued

Acquisitions since early 2018

Year	Art Creation	Software Engineering	Audio	Functional Testing	Localization	Localization Testing	Customer Support
2018	Fire Without Smoke The TrailerFarm	Snowed In Studio Gobo Electric Square Yokozuna Data	Maximal Cord Laced Blindlight				
2019	Sunny Side Up	GetSocial					

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.

MUSIC SERVICES

With the acquisition of Cord and Laced in April 2018, we entered the whole field of music services.

Taking the expertise developed by Cord over many years of working with advertising agencies and directly with major brands in advising, sourcing, commissioning and managing music, including all licencing issues, we have started to introduce these specialised services to the games industry. Early successes in 2018 have included managing all the music requirements for a much-anticipated upcoming new game. Laced is a record label which specialises in helping game companies maximise returns from their investment in music by licencing it back and publishing albums of game music. One of the highlights of 2018 for Laced was the sell-out of its 4-album collection of music from the video game, Doom.

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%

GAMES SCIENCES

Since the beginning of 2018, Keywords has added meaningfully to its activities in the field of player behaviour analysis capabilities.

All of which translate into helping our clients make better games, target the most appropriate new players, retain players for longer and monetise their games better. Player Research, our first business in this field acquired in October 2016 was complemented with the acquisition of Tokyo-based predictive analytics and machine learning business, Yokozuna Data in July 2018. In February 2019, GetSocial joined the Group, bringing with it a software platform for mobile games providing all the social media features and supporting analytics to player-led customer acquisition, social sharing, rewarding and push notifications to mobile game developers. As games continue to transition to a service model from a product model, the use of sophisticated game sciences to understand player behaviour and to facilitate and automate in-game actions will become increasingly valuable to our clients.

Chief Executive's Review
continued

Service line review

Keywords Art Services

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.

Art Creation

16.6%

of Group revenue for the year

Keywords Engineering

The Engineering services 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 €26.2m (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, 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.

Engineering

10.4%

of Group revenue for the year

Keywords Audio Services

Audio revenues increased 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.

Audio

13.6%

of Group revenue for the year

Keywords Functionality QA

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.

Functional Testing

19.6%

of Group revenue for the year

Keywords Localization

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

17.6%

of Group revenue for the year

Keywords Localization QA

Our Localization Testing operations maintained revenues at €19.8m (2017: €19.8m) helped by the full year contribution from VMC. On a 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.

Localization Testing

7.9%

of Group revenue for the year

Keywords Player Support

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.

Player Support

14.3%

of Group revenue for the year

Chief Executive's Review
continued

Managing growth and developing our people

In July 2018, we strengthened the senior management team with the promotions of Igor Efremov, previously with 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, Johnson & Johnson 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.

MARKETING SERVICES

Fire Without Smoke (FWS), The TrailerFarm and Sunny Side Up make up our marketing services business which is currently housed within our Art Services Line.

Our activities here are primarily the production of marketing trailers to support the launch of games, promote the addition of expansion content, introduce new characters, and support community outreach. In addition, we also provide marketing consultancy services, key art production (such as billboard advertising) and e-Sports marketing materials. The combination of creative and technical services represented by this activity sits well within the Keywords family while also expanding our contacts within our clients to include the marketing departments for the first time.

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.

Chief Executive's Review
continued

Service provider market

The service provider market remains highly fragmented and, in addition to the continued growth in our end market driving demand, we continue 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
8 April 2019

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 good 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 14.9%, 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 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.

Financial and Operating Review
continued

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 the 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 31 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 in 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 was obtained.

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

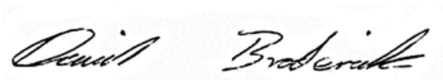
The Company is seeking authority to release all relevant parties from any potential liability via a specific shareholder resolution to be put to the shareholders at the 2019 AGM. Accordingly, the appropriate resolution, if passed, will authorise the Company to enter into deeds of release to put all relevant 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 the Netherlands for a total consideration of €0.2m.



David Broderick
Chief Financial Officer
8 April 2018

KPIs

FINANCIAL KPIs

We monitor our financial performance against a number of different benchmarks and these are set in agreement with the Board.

Like-for-Like Revenue Growth	Revenue Growth	Gross Margin	Adjusted Operating Costs as a % of Sales
10.1%	66%	38.2%	20.7%
2018 10.1%	2018 66%	2018 38.2%	2018 20.7%
2017 15.1%	2017 57%	2017 36.4%	2017 19.0%

	Like-for-Like Revenue Growth	Revenue Growth	Gross Margin	Adjusted Operating Costs as a % of Sales
Reasons for choice	Due to the number of acquisitions the Group makes and because it integrates them quickly, this provides the most meaningful measure of underlying revenue growth.	Quantifies the growth in revenue to external customers.	The Board believes this to be a consistent measure of trading performance.	The Board monitors the overhead to ensure the operating costs of the Group are in line with the level of business being generated.
How we calculate	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.	Calculated increase in sales year on year.	Sales revenue from contracts with customers less cost of sales.	Administration expenses, before non-operating costs including share option costs, costs of acquisitions and integration, amortisation, depreciation, and including bank charges, as a percentage of revenues.
Outlook	The Group expects to achieve like for like growth materially ahead of market growth.	The Group expects FY19 to be another year of revenue growth and development.	The Group expects to keep margins in line with previous years.	The Group will continue to seek to control these closely and in line with the level of business being generated.

Adjusted operating profit margin	**Adjusted Operating Cash Conversion**	**Growth in Adjusted EPS**	**ROCE**
15.1%	87%	53%	19.4%
2018 **15.1%**	**2018** **87%**	**2018** **53%**	**2018** **19.4%**
2017 15.2%	2017 84%	2017 51%	2017 15.8%
The Board believes this to be a consistent measure of trading performance, aligned with the interests of our shareholders.	Measures cash generation and our capacity to pay dividends and service debt.	Reports the underlying profit generated on a per share basis, demonstrating the value being created for shareholders. Also links to the Group's dividend policy and gives an indication of our ability to pay dividends from underlying profit.	Provides an indication of how we are performing relative to our peers and against our cost of capital.
Operating profit before foreign exchange gains or losses, amortisation, any one time expenses and the cost of employee share option awards.	Adjusted Free Cashflow as a percentage of the Adjusted Profit Before Tax.	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.	ROCE is the continuing Adjusted Profit Before Tax as a percentage of total capital employed, which are both adjusted as if all the acquisitions made during each year were made at the start of that year. The calculation is described in more detail on pages 106 and 107.
The Group expects to keep margins in line with previous years.	Cash generation and working capital management will remain a key focus in FY19.	The Group expects that FY19 will be another year of growth in Adjusted Earnings Per Share.	The achievement of returns on capital employed in excess of the Group's cost of capital will continue to be key in order to ensure the efficient generation of cash to fund organic growth, acquisitions and dividend growth.

Principal Risks and Uncertainties

The principal risks associated with the Group's strategy can be divided into:

General business risks for any international company;
Industry-related risks; and
Those specific to the Keywords Group and its strategy.

The principal risks to which the Group is exposed are set out below, together with details of their potential impact; the likelihood of occurrence (on a scale of 1 to 3, with 1 being the most likely); an indication of whether the trend in the risk exposure is increasing, decreasing or broadly unchanged; and the actions taken to mitigate the risk.

Links to Strategic Pillars:

- Extending our range of services
- Selective acquisitions
- Organic growth and cross selling
- Growing market share
- Expanding geographic reach
- Introducing technology

Trend

- Increase
- No change
- Decrease

Internal risks	Likelihood	Actions	Trend
Acquisition risks	3	Keywords has an active acquisition strategy to reinforce its global growth. Managing such acquisitions successfully and embedding the Keywords culture is a crucial ingredient of success, and as Keywords continues to make larger acquisitions, the risk associated is heightened. Failure to do so will have adverse consequences such as management distraction, disposal and reduced profit. Since IPO, the Company has involved a broader number of senior managers in the acquisition and integration process, building on the considerable experience that exists at Board level thus providing further bandwidth to identify, execute and integrate acquisitions.	–
Failure to deliver services	3	Most of Keywords' services are of a time-critical nature with delays or service delivery failures potentially impacting the development or launch plans for games. Timely delivery and the resourcing flexibility to enable delivery to tight deadlines has been an integral part of the Company's modus operandi, and Keywords' approach to project management is applied across the Group. With the expansion of the Group, measures are being taken to assess ongoing delivery performance beyond the regular project post-mortems that are routinely conducted.	–
Cross contamination	2	As the Group succeeds in delivering multiple services to the same clients, so the risk of failure in one service line contaminating the relationship with the client across the other service lines increases. Whilst the introduction of co-development adds to this risk in some respects, it also helps to mitigate it. Adhering to Keywords' strong standards of delivery and efficient communication across service lines is key to managing this risk	↑

External risks	Likelihood	Actions	Trend
Exposure to large clients	3	The Company's client base principally comprises global game companies whose revenues are in the billions and hundreds of millions of dollars. Our top five clients account for 25.6% (2017: 29%) of the Company's revenues. These companies have exacting standards and demand a high quality of service. Any failure in this regard or breakdown in the relationships at the top level could cause considerable damage to the business. The potential impact is partially mitigated through the Company's highly flexible resource base and its expansion continues to reduce its exposure to any single large client.	–

External risks	Likelihood	Actions	Trend
Financial performance – failure to meet expectations	2	Keywords floated on AIM in July 2013 with an expressed set of objectives of growing the business organically and by acquisition. Should the Company lose the confidence of investors, the Company's rating will suffer and this in turn will affect its ability to raise money for or place shares to pay for acquisitions. However, the Company makes every effort to communicate regularly with investors via announcements and face-to-face contact and this effective communication of the continued opportunities for growth in the sector, how it continues to execute on its stated strategy and successfully integrate the businesses it acquires should continue to maintain the confidence of its investors.	–
Sudden business interruption	3	Keywords is a global business and needs to minimise business interruptions and be able to continue servicing customers. This threat could be internal such as a major failure in its IT systems but also external such as the Group experienced and managed during the 2011 Tokyo earthquake and tsunami. The Group's multiple, full-service, delivery hubs provide for a good level of contingency and, supported by a solid business continuity plan and comprehensive insurance, the effects of such disasters can be managed.	↓
Breaches to Technology and information security	2	The Company uses various third party and proprietary tools and technologies for process control and productivity purposes. Continued investment in these tools is important to ensure the Group's effectiveness. New technologies for automated testing, machine translation and crowdsourcing, could pose a threat to the Group in the long-term. The Company participates directly and with clients in various pilot programmes for new technologies to keep abreast of the state of the art and we have a technology innovation initiative called Keywords Innovate which distils ideas from across the Group to develop technologies that can support our services. This is further underpinned through the formation of Keywords Ventures which is focused on new, emerging technologies that may impact the Group in the future. The industry requires the highest standards of security within a company offering services such as Keywords. Cyber security breaches may lead to piracy, disruption of clients' marketing plans, loss of competitive edge and could result in compensation claims. Keywords maintains physical and data security policies and procedures which are regularly audited by its larger clients.	–
Global political risk and uncertainty	3	We operate and own assets in a large number of geographic regions and countries, and, as a result, we are exposed to a wide range of political, economic, regulatory, social and tax environments. Policies or laws in the countries in which we do business may change in a manner that may be adverse for us, even those with stable political environments e.g. many governments have sought additional sources of revenue by increasing rates of taxation. However the diversification and spread of activities geographically mitigates the risk of disruption in any one location and the tax strategy adopted is designed for improved efficiency and we eschew aggressive or artificial practices. **Brexit** The Board has assessed the risk of Brexit on Keywords and concluded that for now, this does not constitute a risk for the Group as its UK operations are small relative to the rest of the Group.	–

Financial risks	Likelihood	Actions	Trend
Inadequate financial and operational controls	3	As a business like Keywords grows rapidly, global financial controls and regular audits need to be in place to ensure smooth, timely and accurate reporting to satisfy the relevant accounting bodies to local branches as well as the Board. Failure to accurately report or forecast financial results through error or fraud would damage the Group's reputation. Therefore, the Group has invested and continues to invest in its financial reporting functions to facilitate strong reporting and management control as it grows. The Group intends to appoint a new Global Internal Audit Manager was appointed in 2019 to further drive improvements.	–
Failure to manage human resources / talent effectively	2	Keywords management structure has been fundamental to the Group's success, enabled by embedding a Group culture that binds the teams together, with a common set of standards. In addition, special emphasis is placed on workplace harmony and the prevention of any forms of discrimination, harassment, or malpractice in the workplace recognising that any sense of dissatisfaction can be very disruptive. As a separate dimension, failure to attract, retain or develop high quality entrepreneurial management across the business could impact on the attainment of strategic objectives. The Group is focused on these areas with the implementation of globally managed service lines, management development and remuneration programmes, incorporating long and short-term incentives. Regular staff surveys are undertaken.	↓
Non-compliance with legal and ethical standards	2	A material failure to comply with applicable legal and ethical standards could result in penalties, costs, reputational harm and damage to relationships with suppliers and customers. The Group promotes a culture of "Doing the right Thing" in all activities. Business conduct guidelines are in place and are supported by more detailed policies and procedures where needed.	↑

Board of Directors: Biographies

Ross Graham (71)
Independent Non-Executive Director and Chairman

A R N D

Length of service with the Group (as at 8 April 2019):
5 years

Experience:
Ross has extensive executive and Non-Executive experience in the technology sector. From being a partner in Arthur Young from 1981 to 1987, he joined Misys PLC, a global software business as Finance Director upon its flotation, latterly becoming Corporate Development Director; throughout he played a key role in developing and implementing the very successful Misys acquisition strategy. Since retiring from Misys, Ross has held a number of Non-Executive directorships including those at Psion PLC from 2005 until 2012 (when it was successfully sold to Motorola Solutions Inc.), at Wolfson Microelectronics PLC from 2004 to 2013 (prior to its sale to Cirrus Logic Inc.), and several others. His experience in these companies has included being Senior Independent Director, Chairman of the Audit Committee and Chairman of the Remuneration Committee. Ross was appointed Director and Chairman of Keywords shortly prior to its flotation in July 2013. With his wealth of experience and Chairing skills, Ross creates the environment for dynamic Board discussion. He has helped elevate the governance processes without destroying the entrepreneurial essence of Keywords.

Andrew Day (55)
Group Chief Executive Officer

D

Length of service with the Group (as at 8 April 2019):
10 years

Experience:
Andrew has a background in technology, manufacturing and business services through corporate development and general management roles within both publicly quoted and private companies. Andrew started his career in 1983 at Rothmans International PLC in production management. From 1986 to 1993 he had responsibility for corporate development activities at Britannia Security Group PLC, TIP Europe PLC and Brent International PLC before holding the position of Divisional Managing Director at Brent International PLC for six years. Andrew was Chief Executive Officer of interactive retail software developer, Unipower Solutions and Head of Retail and CPG for EMEA, a NYSE-listed advanced analytics business, FICO, before joining Keywords as its Chief Executive Officer in April 2009.

David Broderick (44)
Chief Financial Officer

D

Length of service with the Group (as at 8 April 2019):
3 years

Experience:
David Broderick is the Chief Financial Officer. He joined the Group, and was appointed to the Board, in October 2016. Prior to joining Keywords he was the Chief Financial Officer of Dublin-based Arconics, a high-growth aviation software company. In 2013 David joined Stobart Air (formerly Aer Arann) as the Finance Director of the European regional airline during a period of significant growth. Before this he spent eight years at Ryanair Holdings plc, Europe's largest low-cost airline, the latter six years of which he was the Head of Investor relations and oversaw the Group's Inflight Sales Unit's finances and operations. He is a qualified certified accountant, with extensive experience of capital markets and financial management in an international environment.

David Reeves (72)
Senior Independent Non-Executive Director

A R N D

Length of service with the Group (as at 8 April 2019):
5 years

Experience:
David has over 30 years global experience in management roles within multinational companies. He began his career with ICI in the UK and then moved to RJ Reynolds Nabisco where he worked from 1979 to 1991, becoming the worldwide Marketing Director in the USA in 1989. In 1991, David served as the General Manager and Vice President of Marketing in Tokyo for Mitsubishi Shoji JV Technology Company before moving into the Computer game Industry, opening and setting up the PlayStation Company in Germany, Switzerland and Austria. He was appointed Executive Vice President in 1999 and President and CEO of Sony Computer Entertainment (Europe) in 2003 where he remained until 2009. David now runs his own Management Consultancy practice as well as being on the Board of three major Charities in the UK. He brings a global knowledge of growing multinational Companies, experience of the video game industry, Corporate Governance and an understanding of working with companies to develop global strategies in Europe, Asia, North America and LATAM. He was appointed to the Board of Keywords Studios Limited on 29 May 2013.

Giorgio Guastalla (50)
Non-Executive Director

–

Length of service with the Group (as at 8 April 2019):
20 years

Experience:
Giorgio Guastalla is co-founder of Keywords. Prior to establishing Keywords in Ireland in 1998, Giorgio held various positions in marketing and IT at Brent International PLC based in the US, Spain, the UK and France. In 2002 Giorgio founded Italicatessen Ltd, a company operating in the food sector. Giorgio was CEO of Keywords until 2009 before concentrating on his other business interests and moving to a Non-Executive Director role at Keywords Studios. With over twenty years' experience in the industry, Giorgio brings a wealth of understanding and knowledge to Keywords.

Georges Fornay (62)
Independent Non-Executive Director

A

Length of service with the Group (as at 8 April 2019):
2 years

Experience:
Georges has over 30 years' experience in the technology and video games sectors and currently sits on the board of France's second largest Independent games publisher, Focus Home Interactive, which is listed on the Alternext. Georges worked in senior management at Sony Computer Entertainment from 1995 to 2011, including as CEO of the French and Swiss divisions and culminating as the Senior Vice President from 2004-2011. During this time he oversaw the launch of the PlayStation Portable and PlayStation 3. Prior to this, Georges spent nine years at Commodore, the last five years of which were as CEO of Commodore France PC Manufacturing and Distribution. Georges has also held significant industry-wide roles including four years as President of SELL, France's Union of Entertainment Software Publishers, where he was responsible for representing and advocating the industry's and its 31 members' interests to the government. Georges was appointed a Director of Keywords in September 2017.

Charlotta Ginman (53)
Independent Non-Executive Director and Chairman of the Audit Committee

A R N D

Length of service with the Group (as at 8 April 2019):
2 years

Experience:
A Fellow of the Institute of Chartered Accountants in England and Wales, Charlotta is Chair of the Audit Committee. She is a Non-Executive Director and Chair of the Audit Committee of Polar Capital Technology Trust PLC, Pacific Asset Trust PLC and Motif Bio PLC. She is also a Non-Executive Director of Consort Medical PLC and Unicorn AIM VCT PLC. Charlotta has held senior positions in the investment banking and technology / telecom sectors.

As three out of Charlotta's six Non-Executive directorships are with quoted investment companies that involve less time commitment than trading companies, Charlotta is able to devote sufficient time to all of her appointments. Charlotta was appointed a Director of Keywords in September 2017.

Committee Membership

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- D Disclosure Committee
- – None

Chairman's Introduction

The Board is committed to the highest standards of corporate governance

Dear Shareholders

As Chairman of the Board of Directors of Keywords Group plc, I am pleased to introduce the Group's corporate governance report. The corporate governance statement provides an insight into how the Board operated during the year and the key issues considered. The Board is committed to the highest standards of corporate governance. Our approach to governance is set by the Board and our Executive Directors ensure that the approach is effectively implemented across the business. Effective and robust governance remains central to the ongoing success of the Group.

It is my responsibility to ensure that the Group has both sound corporate governance and an effective Board. As Chairman of the Company, my responsibilities include leading the Board effectively, overseeing the Group's corporate governance model, communicating with shareholders and ensuring that good information flows freely between the Executive and Non-Executive Directors in a timely manner.

The Directors of the Company recognise the value of good corporate governance in every part of its business. The Company has adopted the Quoted Companies Alliance Corporate Governance Code ("QCA Code"), which we believe is the most appropriate for a company the size and stage of development as Keywords.

The Board will provide annual updates on our compliance with the QCA Code. During the year, the following changes were made to the Group's key corporate governance arrangements:

- Appointment of ONE Advisory Limited ("Company Secretary") as Keywords' Company Secretary in June 2018
- First Board Performance Evaluation conducted
- Formation of Nominations Committee
- Appointment of David Reeves as Senior Independent Director

The Board considers that the Group complies with the QCA Code in all applicable respects. An explanatory report of how we have applied the QCA Code guidance, and disclosures of any areas of non-compliance, can be found on our website at: www.keywordsstudios.com. The Board understands that the application of the QCA Code supports the Group's medium to long-term success whilst simultaneously managing risks and provides an underlying framework of commitment and transparent communications with stakeholders.

The main Group-wide governance documents are our Core Values and the Code of Conduct, which set out the values and standards that we expect of our employees. These documents, together with our policies, govern how we conduct our business and set the standards that drive performance. Compliance training helps to enforce this. Board oversight, reviews and audits form part of the monitoring and supervision process.

Risk processes are embedded and reviewed by the Board on an ongoing basis across the business. The important governance developments at Keywords over the last year are outlined below.

My ambitions for the composition of the Board are to maintain, and where applicable, broaden the range of expertise, experience and diversity. The Board continues to ensure that effective succession plans are in place.

I encourage all shareholders to attend the AGM, which will be held at MHP, 6 Agar Street, London, WC2N 4HN on 20 May 2019. This event provides an excellent opportunity to meet the Executive and Independent Non-Executive Directors.

Ross Graham
Chairman
8 April 2019

Corporate Governance

Strategy
A description of the Company's strategy, business model and supporting strategic pillars, along with key strengths can be found in the strategic report on pages 14-17.

Internal controls and risk management
The Company's principal risks, along with key challenges in the execution of the Company's strategy, can be found in the Strategic Report on page 32-33.

The Board is responsible for the monitoring of financial performance against budget and forecast and the formulation of the Group's risk appetite including the identification, assessment and monitoring of the Group's principal risks. The Audit Committee has been delegated responsibility for the oversight of the Company's risk management and internal controls and procedures, as well as determining the adequacy and efficiency of internal control and risk management systems. The Board continuously monitors and upgrades its internal control procedures and risk management mechanisms and conducts regular reviews, when it assesses both for effectiveness. This process enables the Board to determine if the risk exposure has changed during the year and these disclosures are included in the Annual Report. In setting and implementing the Company's strategies, the Board, having identified the risks, seeks to limit the extent of the Company's exposure to them having regard to both its risk tolerance and risk appetite.

The Directors believe that the Group has internal control systems in place appropriate to the size and nature of the business. The key elements are:
- Group Board Meetings, at a minimum of eight times per year, with reports from and discussions with senior executives on performance and key risk areas in the business;
- Monthly financial reporting, for the Group and for each subsidiary, of actual performance compared to budget and the prior year;
- Annual budget setting;
- Annual strategy conference with top management team; and
- A defined organisational structure with appropriate delegation of authority.

Further information on the Company's approach to risk management and internal controls can be also found in the Audit Committee Report on page 43.

The Board
The Board, as a whole, is responsible for the overall management of the Group and for its strategic direction, including approval of the Group's strategy, its annual business plans and budgets, the interim and full year financial statements and reports, any dividend proposals, the accounting policies, major capital projects, any investments or disposals, its succession plans and the monitoring of financial performance against budget and forecast and the formulation of the Group's risk appetite including the identification, assessment and monitoring of Keywords' principal risks.

Director biographies and committee memberships are set out on pages 34-35.

The Board comprises the CEO, Andrew Day, the CFO, David Broderick, 1 Non-Independent Non-Executive Director, Giorgio Guastalla, and 4 Independent Non-Executive Directors, Georges Fornay, Charlotta Ginman, Ross Graham and David Reeves. David Reeves is the Company's Senior Independent Director ("SID"), and Ross Graham is the Company's Chairman. Letters of appointment of all Directors are available for inspection at the Company's registered office during normal business hours. The Executive Directors work full time for the Company. All the Non-Executive Directors are expected to dedicate at least 30 days per annum to the Company, rising to 40 days if they also chair a Committee, and the Chair is expected to dedicate 60 days per annum. The Company has adopted a policy whereby all members of the Board are subject to re-election at each AGM.

The Board is satisfied that it has a suitable balance between independence, on the one hand, and knowledge of the Company, on the other, and that no individual or group may dominate the Board's decisions. The Non-Executive Directors have both a breadth and depth of skills and experience to fulfil their roles. The Company believes that the current balance of skills in the Board as a whole reflects a very broad range of personal, commercial and professional experience, and notes the range of financial and managerial skills. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational, enabling the Board to discharge its duties and responsibilities effectively.

The Board meets a minimum of 8 times a year and a calendar of meetings and principal matters to be discussed are agreed at the beginning of each year. In order to be efficient, the Directors meet formally and informally both in person and by telephone. Board and Committee document authors are made aware of proposed monthly deadlines through the calendar of meetings assembled at the beginning of the year. Board papers are collated by the Company Secretary, compiled into a Board / Committee Pack, and circulated at least one week before meetings, allowing time for full consideration and necessary clarifications before the meetings. The Board also utilizes a fully-functioning Board Portal, which ensures the provision of timely and efficient distribution of Board and Committee papers as well as an effective means of Communication for the Board.

Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary.

Corporate Governance continued

Senior Independent Director
David Reeves acts as the Senior Independent Director ("SID") to the Company, serving as a sounding board to the Chairman and acting as an intermediary for the other directors. The SID is also available to shareholders and other Non-Executive directors to address any concerns or issues they feel have not been adequately dealt with through the usual channels of communication.

Audit Committee
The Audit Committee is responsible for assisting the Board in fulfilling its financial and risk responsibilities. The Audit Committee oversees the financial reporting, risk management and internal control procedures. The Audit Committee advises the Board on the appointment and removal of the external auditor and discusses the nature, scope and results of the audit with the auditors. The Audit Committee reviews the extent of non-audit services provided by the auditors and reviews with them their independence and objectivity.

Remuneration Committee
The Remuneration Committee is responsible for determining the remuneration of the Chairman, Executive Directors, the Company Secretary and senior executives of Keywords. The Remuneration Committee is responsible for making recommendations to the Board of Directors' and senior executives' remuneration. Non-Executive Directors' remuneration and conditions are considered and agreed by the Board. Financial packages for Executive Directors are established by reference to those prevailing in the employment market for executives of equivalent status both in terms of level of responsibility of the position and their achievement of recognized job qualifications and skills. The Committee will also have regard to the terms, which may be required to attract an equivalent experienced executive to join the Board from another company.

Nominations Committee
The Nominations Committee monitors and reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and makes recommendations to the Board with regard to any recommended changes. The Nominations Committee also gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed on the Board in the future. The role and responsibilities of the Nominations Committee can be found in the Nominations Committee Report on page 55.

Disclosure Committee
The Disclosure Committee has been established to assist in the design, implementation and evaluation of the Company's disclosure controls and procedures. The first Disclosure Committee meeting is scheduled for the first half of 2019.

Terms of reference of all Keywords' Committees are available to view on the Company's website at: www.keywordsstudios.com.

The table below sets out attendance statistics for each Director at Board, and where relevant, Committee meetings held during the financial year.

Director	Board 10 meetings held	Audit Committee 6 meetings held	Remuneration Committee 3 meetings held	Nomination Committee 4 meetings held
Ross Graham	10	6	3	4
Andrew Day	10	–	–	4
David Broderick	10	–	–	–
Giorgio Guastalla	10	–	–	–
Georges Fornay	10	4*	–	–
Charlotta Ginman	10	6	3	4
David Reeves	10	6	3	4

* Appointed to Audit Committee in June 2018.

The Non-Executive Directors meet without the presence of the Executive Directors during the year, and also maintain ongoing communications with Executives between formal Board meetings.

Meetings are open and constructive, with every Director participating fully. Senior management can also be invited to meetings, providing the Board with a thorough overview of the Company.

In addition to their general Board responsibilities, Non-Executive Directors are encouraged to be involved in specific workshops or meetings, in line with their individual areas of expertise. The Board is kept abreast of developments of governance and AIM regulations. The Company Secretary provides updates on governance issues, and the Company's Nomad provides annual Board AIM Rules refresher training as well as the initial training as part of a new Director's on-boarding.

The Board shall review annually the appropriateness and opportunity for continuing professional development, whether formal or informal.

Advisors

The Board has regular contact with its advisors to ensure that it is aware of changes in corporate governance procedures and requirements and that the Group is, at all times, compliant with applicable rules and regulations. The Company holds appropriate insurance cover in respect of possible legal action against its Directors. The Company's Nomad supports the Board's development, specifically providing guidance on corporate governance and other regulatory matters, as required.

Keywords' Company Secretary is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing its operation, as well as helping the Chairman to maintain excellent standards of corporate governance. The Company Secretary also provides Board support through assistance with shareholder meetings and MAR compliance.

The Company has also enlisted the support of Mercer-Kepler, who provides advice in relation to remuneration. Additional information can be found in the Company's Remuneration Report on page 46.

All Directors may receive independent professional advice at Keywords' expense, if necessary, for the performance of their duties.

Board Performance Evaluation

Details of the Company's Board Performance Evaluation for the year can be found in the Report of the Nomination Committee on page 55.

Culture

The Board recognises that its decisions regarding strategy and risk may impact the corporate culture of the Company as a whole and that this will impact the performance of the Company. The Board is also aware that the tone and culture set by the Board can have an impact on the Company as a whole and on the way that employees behave. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long term value to its shareholders and that shareholders are able to express their views and expectations for the Company in a manner that encourages open dialogue with the Board.

A large part of the Company's activities are centred upon an open and respectful dialogue with employees, clients and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives. The Board places great importance on this aspect of corporate life and seeks to ensure that this flows through all that the Company does. The Directors consider that the Company has an open culture facilitating comprehensive dialogue and feedback, which enables positive and constructive challenge.

The Company operates in a manner that encourages an open and respectful dialogue with employees, customers and other stakeholders and the Board considers that sound ethical values and behaviours are crucial to the ability of the Company to achieve its corporate objectives. The Board places great importance on this aspect of corporate life and seeks to ensure that this flows through all that the Company does. The Directors believe that the Company has an open culture facilitating comprehensive dialogue and feedback and enabling positive and constructive challenge.

Further information on the Company's culture can be found in the Strategic Report pages 8-11.

Directors' Report

The Directors present the Annual Report together with both the audited consolidated financial statements and the parent company (Keywords Studios PLC) financial statements for the year ended 31 December 2018.

Disclaimer
The purpose of this Annual Report & Financial Statements is to provide information to the members of the Company. The Annual Report & Financial Statements have been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its Directors and employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report & Financial Statements contain certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report & Financial Statements and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report & Financial Statements should be construed as a profit forecast.

Dividends
The results for the year are set out on page 60. Dividends paid and proposed are set out on page 78. The Board is proposing a final dividend 1.08p per share following the payment of an interim dividend of 0.53p per share in October 2018.

Directors and changes to the Board
The Directors of the Company during the year were Ross Graham, Andrew Day, David Reeves, Giorgio Guastalla, Georges Fornay, Charlotta Ginman and David Broderick. Details of members of the Board at 31 December 2018 are set out on pages 34 and 35.

Going concern
In view of the Group's resources, cash at 31 December 2018 of €40m, cash flow from operations in 2018 of €32.2m, and the overall financial condition of the Group, the Directors have reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Political donations
No political donations were made in the year.

Directors and their interests
A list of Directors, their interests in the ordinary share capital of the Company, their interests in its long-term performance share plan and details of their options over the ordinary share capital of the Company are given in the Directors' Remuneration Report on pages 46 to 54. No Director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its operating companies at any time during the year.

Significant shareholdings
At 31 December 2018, the Company had been notified, in accordance with the Disclosure and Transparency Rules, of the following interests in its ordinary share capital*:

Name	Shares	%
P.E.Q Holdings	4,000,736	6.3
Octopus Investments	3,650,758	5.7
Andrew Day	3,296,573	5.2
Oberweiss Asset Management	2,944,000	4.6
Canaccord Genuity Wealth management	2,820,855	4.4
T Rowe Price Global Investments	2,788,693	4.4
Franklin Templeton	2,695,000	4.2
Kames Capital	2,247,262	3.5

* As recorded in the Company's share register.

Future developments
Important events since the financial year end are described on page 29 of the Strategic Report and future developments are described in the strategy section of the Strategic Report on pages to 16 and 17.

People and organisation
Keywords is, and always has been, dependent on the quality and commitment of its entire staff to provide and maintain the high levels of services expected by the Groups' clients.

Keywords average number of employees was 5,238 during 2018. This permanent headcount is supplemented with employees on short-term contracts as activity changes throughout the year.

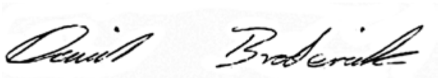
The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment and the provision of training and career development and promotion, where appropriate. The Group has continued its policy of employee involvement by making information available to employees on matters of concern to them. Many employees are stakeholders in the Company through participation in share option schemes and a long-term performance share plan.

The Group has not disclosed further details on employment of disabled persons or employee involvement as it has fewer than 250 employees within the UK.

Corporate responsibility
Keywords seeks to be a socially responsible Group which has a positive impact on the communities in which operates. By the nature of the business, we employ a diverse workforce, with many nationalities. No discrimination is tolerated and we endeavour to give all employees the opportunity to develop their capabilities. We provide an excellent working environment, the latest technology and appropriate training.

Website publication
The Directors are responsible for ensuring the Annual Report and Financial Statements are made available on a website. Financial statements are published on the Group's websites in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's websites is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the board



David Broderick, FCCA
Chief Financial Officer
8 April 2019

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report & Financial Statements.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements the Directors are required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether IFRS as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 34 and 35, confirm that:
- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that he or she ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Website publication

The Directors are responsible for ensuring the Annual Report and Financial Statements are made available on a website. Financial statements are published on the Group's websites in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's websites is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Liam O'Donoghue
Company Secretary
8 April 2019

Audit Committee Report

Introduction from the Chair

As Chair, I am pleased to present the Audit Committee report for the year ended 31 December 2018. This report details the work of the Committee over the past year, fulfilling our responsibilities to provide effective governance over the Group's financial activities.

Committee Composition

The Committee members, apart from myself, are Ross Graham, David Reeves and Georges Fornay who joined the Committee during the year.

The Audit Committee, as a whole, has competence relevant to the video games industry, both Ross Graham and I are Chartered Accountants and I also chair the Audit Committee for other public companies. More information about the Committee members can be found on pages 34 and 35.

The Committee met 6 times during the financial year, and discussions included the following key items:

- internal control framework including financial systems roll out
- risk assurance
- treasury
- taxation
- accounting policies
- financial results
- alternative performance measures
- treatment of special items
- asset Impairment (including goodwill)
- going concern review
- internal audit function
- engagement and review of performance of external auditors
- review of audit and non audit services and fees
- cyber risk, data protection and disaster recovery plans
- whistleblowing, tax evasion, anti-bribery / corruption and modern slavery policies
- review of Audit Committee terms of reference

Committee Role and Responsibilities

The Committee has written Terms of Reference, which are available to view on the website, www.keywordsstudios.com. The Terms of Reference clearly define the Committee's responsibilities and duties. In addition to the Terms of Reference, the Committee has developed an annual agenda which corresponds with the meeting schedule, to ensure all key responsibilities are completed and managed.

Significant Issues Considered by the Audit Committee During the Year

Internal Control and Risk Assurance Framework

The Audit Committee has been actively reviewing and challenging the upgrades that have taken place during the year to the Company's internal control and risk assurance framework ensuring that following its rapid expansion, the Company operates within a fit for purpose framework. The Committee is pleased to see the progress made in the global automated financial systems roll-out, allowing eventually a fully integrated automated reporting system to operate seamlessly across the Group, replacing manual consolidation processes that are both labour intensive and prone to human error. The recruitment of a treasury team in Dublin during the year with a cash pooling platform being introduced will allow better control of Group cash and the optimisation of cash management.

During the year the Audit Committee has introduced a regular review of the Company's main risks on behalf of the Board, ensuring key risks are top of mind and relevant and mitigation plans are in place where possible and, over time, the Company proposes to adopt a similar framework right through the organisation.

Internal Audit

To complement the above efforts, the Audit Committee has commenced working closely with management to recruit an Internal Audit Manager in 2019. They will be tasked with establishing an internal audit function, to embrace all aspects of operating and financial efficiency, and will report to the Audit Committee chair.

Audit Committee Report continued

Key Accounting Issues

During the year and as part of the year end procedures, the Committee considered the following key financial and internal control matters in relation to the Group's financial statements and disclosures with input from both management and the external auditor:

- Revenue recognition
- Functional reference currency
- Business combinations
- The valuation of intangible assets
- Leases
- Financial instruments
- Alternative performance measures
- Segmental reporting (if relevant)
- Application and impact of new standards IFRS 9 (financial instruments), IFRS 15 (revenue recognition) and IFRS 16
- Taxation
- Going concern

For further detail on these, see notes 2 and 3.

Financial Reporting Council

The Company received a letter from the Financial Reporting Council's (FRC) in November 2018, which raised questions on certain aspects of its annual report and accounts for the year ended 31 December 2017. The Company responded fully to the matters raised in the FRC's letter, enabling it to conclude its enquiry. The principal changes to the Company's annual report and accounts for the year ended 31 December 2018 resulting from the FRC's enquiry were as follows:

- Improvements to the level of detail included in the strategic report, including added analysis on movements in working capital;
- Revising the tax reconciliation in note 7 so that it starts from the weighted average statutory tax rate that applies in the jurisdictions in which the Group pays tax; and
- Improving the disclosure of critical accounting estimates and judgements in note 3.

In addition, the FRC highlighted to the Company that it the payment of dividends in 2016 and 2017 were not supported by the correct Relevant Accounts, as required under UK company law. Further information on this and how the issue has been addressed can be found on page 78.

The FRC's enquiry did not result in any change to reported profit or net assets.

Scope and limitations of the FRC's review

The Company recognises that the FRC's review was based on a review of its annual report and accounts for the year ended 31 December 2017 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review provides no assurance that the Company's annual report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

Annual Report and Financial Statements

The Board has asked the Committee to confirm that in its opinion the Annual Report as a whole can be taken as fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position, performance, business model and strategy. In doing so the Committee has given consideration to:

- The way the Strategic Reports (including the Chairman's Statement and Reports of the CEO and CFO) presents the Group – its business, financial and business model and the metrics management uses to measure performance
- whether suitable accounting policies have been adopted and have challenged the robustness of significant management judgements and estimates reflected in the financial results
- the comprehensive control framework around the production of the Annual Report, including the verification processes in place to deal with the factual content;
- the extensive levels of review that are undertaken in the production process, by both management and advisers
- the Group's internal control environment

In 2018, the Company became aware that certain interim dividends paid during the period 2013 to 2018 had been made otherwise than in accordance with the Companies Act 2006 because interim accounts had not been prepared and filed at Companies House prior to payment. Additionally, the Company also became aware of a technical issue relating to the levels of distributable reserves and the payment of the interim dividend to the shareholders in October 2016, as explained in more detail in the director's report. The Committee was fully involved in resolving the matter and oversaw the thorough review by management into the historical issues and the administrative steps taken to rectify the issues.

As a result of the work performed, the Committee has concluded that the Annual Report for the year ended 31 December 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy, and it has reported on these findings to the Board.

Whistleblowing
During the year, the Audit Committee reviewed and approved the whistleblowing policy and accompanying process the Company has rolled out globally. The policy allows employees wherever they are to raise any concerns they may have about possible financial or other irregularities confidentially.

The Group is committed to the highest level of integrity and accountability and the prevention of bribery and corruption.

External Auditor
BDO, the Company's current auditor, was first appointed on 29 May 2013. This is the first year John O'Callaghan is acting as audit partner following Teresa Morahan having stepped down as audit partner after five years.

The Audit
The scope of the annual audit was agreed in advance with the Committee with a focus on areas of audit risk and the appropriate level of audit materiality. The Committee also had discussions with the auditor on fees, internal controls, accounting policies and areas of critical accounting estimates and judgements. The Auditors reported to the Audit Committee on the results of the audit work and highlighted any issue which the audit work had discovered, or the Committee had previously identified as significant or material in the context of the Financial Statements.

There were no adverse matters brought to the Audit Committee's attention in respect of the 2018 audit, which were material or significant or which should be brought to Shareholders' attention.

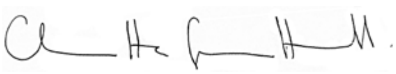
Effectiveness
The Audit Committee monitored and evaluated the effectiveness of the Auditors under the terms of their appointment based on an assessment of their performance, qualification, knowledge, expertise and resources. The Auditors' effectiveness was also considered along with other factors such as audit planning and interpretations of accounting standards and separate discussions with Management (without the auditor present) and with the auditors (without Management present). The Chair of the Audit Committee also had discussions with the audit partner outside the formal meetings throughout the year.

The Committee was satisfied that the audit was effective and that BDO continues to demonstrate the skills and experience needed to fulfill its duties effectively.

Independence
In order to fulfil the Committee's responsibility regarding independence of the Auditor, the Committee reviewed the senior staffing of the audit, the Auditor's arrangements concerning any conflicts of interest, the extent of any non-audit services, the Auditor's independence statement and any other issues that may affect the Auditor's independence. The Committee was satisfied that the auditor remains independent.

Non-audit services
The Audit Committee's established during the year a policy on the provision of non-audit services by the Auditors. The policy is produced in line with the FRC ethical standards and any non-audit services are required to be pre-approved by the Audit Committee.

During the year BDO provided non-audit services to the Company of €23,000, as per the note 5.



Charlotta Ginman, FCA
Chair of the Audit Committee
8 April 2019

Directors' Remuneration Report

Dear fellow Shareholders,

As Chairman of the Remuneration Committee, it is my pleasure to present the Directors' Remuneration Report for the period ended 31 December 2018.

Keywords Studios PLC has chosen to apply the Corporate Governance Code for Small and Mid-size Quoted Companies published by the Quoted Companies Alliance. Although the Company is currently AIM quoted, the Board recognises the importance of shareholder transparency and standards of governance. Therefore, this report contains all the information required to be disclosed as an AIM quoted Company and also contains some additional information that would be applicable were the Company listed on the London Stock Exchange main market, and includes:

- The Directors' Remuneration Policy; and
- Our annual report on remuneration, detailing director remuneration in 2018 and that set for 2019.

It is my hope that you find this a clear and comprehensive report and I look forward to hearing the views of our investors on the information presented here over the coming months. We will carefully monitor emerging practice in this area as well as guidance from investor representative groups.

We operate a simple Executive Director remuneration structure made up of base salary and pension, a bonus plan and a long-term incentive plan ("LTIP") which provides a clear link between pay and our key strategic priorities.

The Remuneration Committee intends to keep its approach to remuneration under regular review for continued appropriateness taking account of regulatory requirements and corporate governance best practices as applicable to the Company over time. To this end, it is relevant to note our decision made in 2018 to change the LTIP performance condition for 2019 awards.

David A Reeves.

Dr David Reeves
Chairman, Remuneration Committee
8 April 2019

Section 1: Directors' Remuneration Policy

Policy and principles

The Remuneration Committee determines the Company's policy on the structure of the remuneration for Executive Directors and Senior Management Team ("SMT") and is responsible for governing the remuneration policy for the broader employee population.

The objectives of this policy are to:

- Reward Executive Directors and the SMT in a manner that ensures that they are properly incentivised and motivated to perform in the best interests of shareholders.
- Provide a level of remuneration required to attract and motivate high-calibre Executive Directors and SMT members.
- Encourage value creation through consistent and transparent alignment of incentive arrangements with the agreed company strategy over the long term.
- Ensure the total remuneration packages awarded to Executive Directors and SMT members, comprising both performance-related and non-performance-related remuneration, are designed to motivate the individual, align interests with shareholders and comply with corporate governance best practices.

The Board and the Remuneration Committee believe the foregoing objectives are best achieved by a remuneration structure whereby:

- Basic pay is set at a below-median level albeit sufficient for the challenges and pressures of the role.
- Annual bonuses are set at modest levels with a maximum of 30% of salary on the premise that an annual bonus doesn't influence the behaviour or commitment of a senior executive (this does not apply to sales executives).
- Long-term incentives are the means by which executives can earn significant rewards if, but only if, shareholders likewise have obtained a good return.

Remuneration components for Executive Directors and SMT (the 'Executives')

Various remuneration components are combined to ensure an appropriate and balanced remuneration package which reflects the size and complexity of the Group, the Executive's experience, responsibility and position in the Company as well as market practice. For this, the Remuneration Committee takes into account the performance of the individual, comparisons with peer companies and, where considered appropriate, reports from external independent consultants.

The remuneration package comprises the following elements:

- Fixed remuneration (basic salary and, for some Executives, pension);
- Performance-based remuneration (annual bonus and LTIP):

Purpose and link to Strategy	Operation	Opportunity	Performance measures
Base salary			
To attract and retain talented Executives to deliver the Group's strategy, by ensuring base salaries and the implied total package are competitive in relevant talent markets, while not overpaying.	Base salaries are reviewed by the Committee annually, and benchmarked periodically against comparable roles at comparable companies of similar size and complexity.	Salaries are set on a case-by-case basis to reflect the role, the experience and qualifications of the individual, and are targeted at below market median. Base salary increases for the Executives take into account personal performance, Company performance, significant changes in responsibilities, the average increase awarded to the wider workforce, and competitive market practice.	n/a
Pension and Benefits			
To provide an appropriate structure and level of post-retirement benefit for Executives in a cost-efficient manner that reflects local market norms in the relevant jurisdiction.	At the discretion of the Remuneration Committee, the Executives may participate in a pension scheme facilitated by the Company. The Company also provides access to Group Benefit schemes where appropriate by Region which may include moderate contribution towards private health insurance, death in service and other Group based benefits.	The Company provides access to pension schemes based on local legal requirements or where expected by local labour markets. Contributions meet the minimum requirements or are of a modest level. Basic additional benefits may also be provided where available and where considered the norm for managerial positions in similar businesses.	n/a

Directors' Remuneration Report
continued

Purpose and link to Strategy	Operation	Opportunity	Performance measures
Annual Bonus			
To provide a modest award where individual and company performance have been at or above expected levels.	Executives are eligible to participate in an annual bonus scheme. The Remuneration Committee reviews targets and the weighting of performance measures each year. The Company also offers commission arrangements for Executives in sales roles.	Up to a maximum of 30% of salary (excluding sales plans where the maxima may vary).	The portion of bonus earned in any one year depends on the Remuneration Committee's assessment of each individual's performance and the overall performance of the Company against predetermined turnover and profitability targets for the year. Performance targets are typically weighted 80% on the Company's financial performance and 20% on personal performance (however, if the Company's financial performance is considered to be unsatisfactory, the element based on personal performance is likely to be foregone).
LTIP			
To incentivise delivery against total shareholder return targets and align the interests of Executives and shareholders in growing the value of the Group over the long-term.	LTIP grants are made annually in the form of conditional awards of shares or nil-cost share options which vest subject to performance conditions measured over three years. Once vested, awards may be exercised for a period of up to 7 years from grant. Malus provisions apply in certain circumstances.	LTIP awards are granted as a number of shares.	Vesting of the LTIP is subject to continued employment during the performance period and the achievement of performance conditions based on Total Shareholder Return ("TSR"). The Committee has the power of discretion to adjust the outcome in exceptional circumstances so that it is a fair reflection of the underlying performance of the Group. Further details, including the performance targets attached to the LTIP in respect of each year will be disclosed in the relevant Implementation Report on Remuneration (subject to these being considered not to be commercially sensitive).

Malus policy
For any awards granted since 2016, malus may be applied to LTIP awards in cases of fraud, dishonesty or deceit, gross misconduct or material financial misstatement in the audited financial results of the Group. The Remuneration Committee may determine that an Award is cancelled in its entirety or be reduced to the extent they see fit.

Use of Discretion
The Remuneration Committee may apply its discretion when agreeing remuneration outcomes, to help ensure that the implementation of our remuneration policy is consistent with underlying Company performance and is equitable to all parties.

Executive Director service contracts

In accordance with general market practice, each of the Executive Directors has a rolling service contract. The following table shows the date of the service contract for each executive director served during the year:

Executive director	Position	Date of appointment	Date of service agreement	Notice period
Andrew Day	CEO	1 Apr 2009	21 Jun 2013	6 months
David Broderick	CFO	3 Oct 2016	8 Sep 2016	6 months

Remuneration for the wider workforce

The remuneration policy for other employees is based on principles consistent with those that are applied to Executive remuneration, with the common objective of driving financial performance and the achievement of strategic objectives and contributing to the long-term success of the Group. Remuneration supports our ability to attract, motivate and retain skilled and dedicated individuals whose contribution continues to be a key factor in the Company's success.

Annual salary reviews take into account Company performance, local pay and market conditions plus salary levels for similar roles in comparable companies. Some employees below Executive level are eligible to participate in annual bonus schemes; opportunities and performance measures may vary by organisational level, geographical region and an individual's role. An annual survey is conducted to ensure gender equality as it relates to employee compensation.

The Company performs equal pay and gender pay gap analyses across all its locations. In particular, the Board of Directors discussed the results of the latest analyses in August 2018 and are satisfied that there is equal pay given location and role.

LTIP programmes are used for senior permanent members of staff, in which approximately 10% of the workforce participate. The focus of the LTIP is to retain talent and create long-term shareholder value consistent with fulfilment of the Company's long-term strategic goals.

External appointments held by Executives

Executives may not accept any external appointment without the consent of the Board.

Consideration of shareholder views

The Remuneration Committee will take into consideration all shareholder views during the year and at the annual general meeting each year as well as guidance from shareholder representative bodies more broadly, in shaping the Company's implementation of its Remuneration Policy as well as future changes to the Policy.

Leaver treatment

Fair treatment will be extended to departing executives. The Group's policy on termination payments is to consider the circumstances on a case-by-case basis, taking into account the relevant contractual terms in the Executive's service contract and the circumstances of termination.

Executives who resign or are dismissed for cause are, by default, not eligible for an annual bonus if they have left or are under notice at date of payment and forfeit all unvested LTIP shares.

At the Remuneration Committee's discretion good leavers (normally including such circumstances as retirement, death, disability and redundancy) may be allowed to exercise a proportion of unvested LTIPs post-termination when, or to the extent that, the underlying LTIPs meet the performance criteria for vesting.

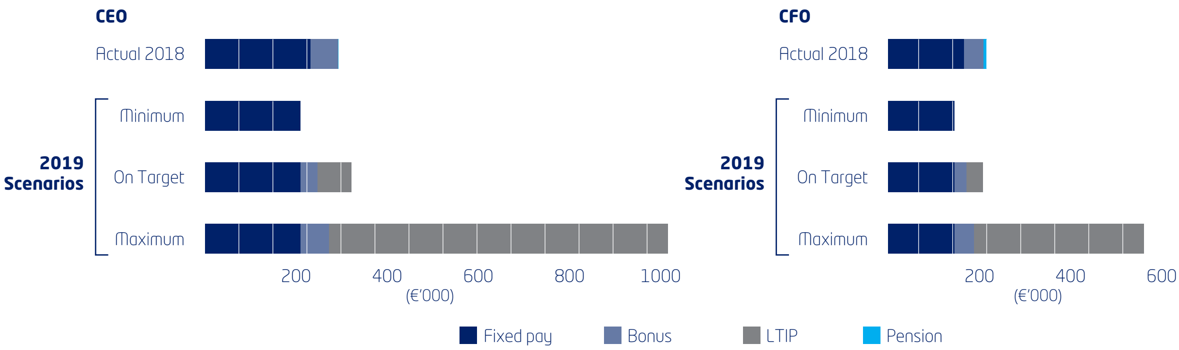
On a change of control, unvested LTIP awards may be exercised at the time of the event subject to achievement of any performance conditions.

Directors' Remuneration Report
continued

Pay for performance scenario analysis

The charts that follow provide an estimate of the potential future reward opportunities for the Executive Directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Maximum', 'On target' and 'Minimum'. These charts illustrate how performance-orientated and long-term the Company's remuneration arrangements are, with the majority of the remuneration opportunity being delivered only under a 'Maximum' scenario. We have also included a bar showing the value of the actual package in 2018.

Potential reward opportunities are based on the Remuneration Policy, applied to 2019 base salaries and incentive opportunities. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value excludes the impact of share price movement.



Assumptions:
'Actual 2018': Fixed remuneration (2018 base salary, pension), bonus granted in 2018 and LTIP vesting in 2018.
'Minimum': Fixed remuneration only (2019 base salary, pension), being the only element of Executive Directors remuneration not linked to performance.
'On Target': Fixed remuneration as above, plus target bonus (18% of base salary) and threshold LTIP vesting (10% of maximum) at the 3-month average share price to 31 December 2018.
'Maximum': Fixed remuneration, plus maximum bonus (30% of salary) and full vesting of proposed 2019 LTIP awards at 3-month average share price to 31 December 2018.

Non-Executive Director fee policy

Non-Executive Directors receive fees for attendance at board meetings and its sub-committees. The Company does not operate any pension scheme for Non-Executive Directors nor do they participate in any variable pay plan. Any reasonable business expenses (including tax thereon) may be reimbursed.

Section 2: Implementation of the Remuneration Policy in 2018

The Remuneration Committee

The members of the Remuneration Committee in 2018 were David Reeves (Committee Chairman), Charlotta Ginman (joined at 24 October 2017) and Ross Graham. The members are all Independent Non-Executive Directors. In the year ended 31 December 2018, the Remuneration Committee met on three occasions. All three members of the Committee attended the committee meetings throughout the year together with, on occasion, the CEO, the CFO, the COO the Global HR Director, all at the request of the Committee Chairman.

The Company Chairman and the Chairman of the Remuneration Committee also met with key investors on several occasions in 2018 to obtain input and feedback on Executive and Company-wide remuneration.

The remit of the Committee is to determine and agree with the Board the framework for the remuneration of the Company Chairman (Ross Graham is not involved in related discussions), Executive Directors, Company Secretary and other members of the Senior Management of the Group, and also oversee the remuneration policy for the wider workforce. No Director is involved in any discussion or decision about his or her own remuneration.

Mercer-Kepler supports the Remuneration Committee on remuneration related matters and is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the Code of Conduct in relation to Executive remuneration consulting in the UK. Mercer-Kepler does not have any other association with the Company and is considered independent by the Committee.

Directors' emoluments

The remuneration for the Directors of the Company for the period year ended 31 December 2018 is detailed in the table below:

	2018					2017				
	Salary or fees €	Bonus €	Pension €	LTIP[1] €	Total €	Salary or fees €	Bonus €	Pension €	LTIP €	Total €
Andrew Day	**230,195**	**21,036**	**911**	**-**	**252,142**	208,925	62,677	–	–	271,602
David Broderick	**158,227**	**14,460**	**7,850**	**-**	**180,537**	141,830	43,050	3,587	–	188,467
Ross Graham	**76,293**	**-**	**-**	**-**	**76,293**	69,244	–	–	–	69,244
David Reeves	**68,300**	**-**	**-**	**-**	**68,300**	64,468	–	–	–	64,468
Giorgio Guastalla	**50,552**	**-**	**-**	**-**	**50,552**	48,691	–	–	–	48,691
Georges Fornay	**55,299**	**-**	**-**	**-**	**55,299**	17,603	–	–	–	17,603
Charlotta Ginman	**68,300**	**-**	**-**	**-**	**68,300**	21,742	–	–	–	21,742
	707,165	**35,496**	**8,761**	**-**	**751,422**	572,503	105,727	3,587	–	681,818

1. Based on 3-month average share price to 31 December 2018.

Annual bonus outcome for 2018

During 2018, the Executive Directors participated in the annual bonus scheme, and were eligible to earn awards of up to 30% of salary, subject to the attainment of specific targets set for each individual. The portion of bonus earned in the year was dependent on Company performance (weighted 80%) against turnover and profitability targets for the year and on the Remuneration Committee's discretionary assessment of each individual's performance (weighted 20%).

The table below summarises the bonus earned by the Executive Directors for the year:

Director	Maximum Opportunity	Bonus for 2018
Andrew Day	30% of salary	7.5% of salary=£18,624
David Broderick	30% of salary	7.5% of salary=€14,460

Directors' Remuneration Report
continued

Long-term incentives vesting in 2018

In June 2015, the CEO was granted an award of 35,000 shares under the LTIP the vesting of which was based on the Company's TSR performance versus the Numis Smaller Companies (excluding Investment Trusts) Index over the 3-year period ending on 1 June 2018. One-third of the award vests for achieving Index TSR+10%, two-thirds vests at Index TSR+20%, with full vesting for Index TSR+30% over three years. The Company's TSR performance over this period significantly outperformed that of the Index (by c.920%) resulting in full vesting of these awards on 1 June 2018.

TSR over the 3-year performance period

Other long-term incentives outstanding during 2018

LTIP awards granted to the Executive Directors in May 2016 and May 2017 remained outstanding during 2018. The full vesting of these awards requires Keywords TSR to outperform the Numis Smaller Companies (excluding Investment Trusts) Index over the 3-year period by 45%. Based on performance up to 31 December 2018 when the share price was £11.92, these awards would fully vest (see chart below).

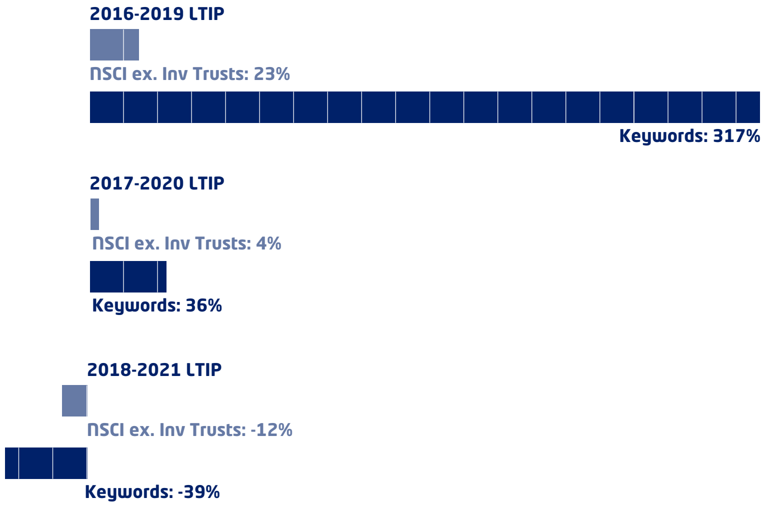
Long-term incentives granted during 2018

In May 2018, the Executive Directors were granted awards under the LTIP the vesting of which is based on the Company's TSR performance versus the Numis Smaller Companies (excluding Investment Trusts) Index over the 3-year period ending on 18 May 2021.

During 2018, and prior to the grant of these awards, the Remuneration Committee reviewed the TSR condition set for LTIP awards and determined, given the significant increase in the Company's share price since the 2017 LTIP awards, that the performance level required for full vesting of future LTIP awards would be set at a 20% outperformance of the benchmark.

Therefore, for the 2018 awards, threshold vesting (10% of the award) will vest for TSR in line with the Index and full vesting will be earned for exceeding the Index TSR by 20% over the performance period. The number of shares granted to the CEO and CFO was 50,000 and 25,000 respectively. Based on performance up to 31 December 2018 when the share price was £11.92, these awards would not vest (see chart below).

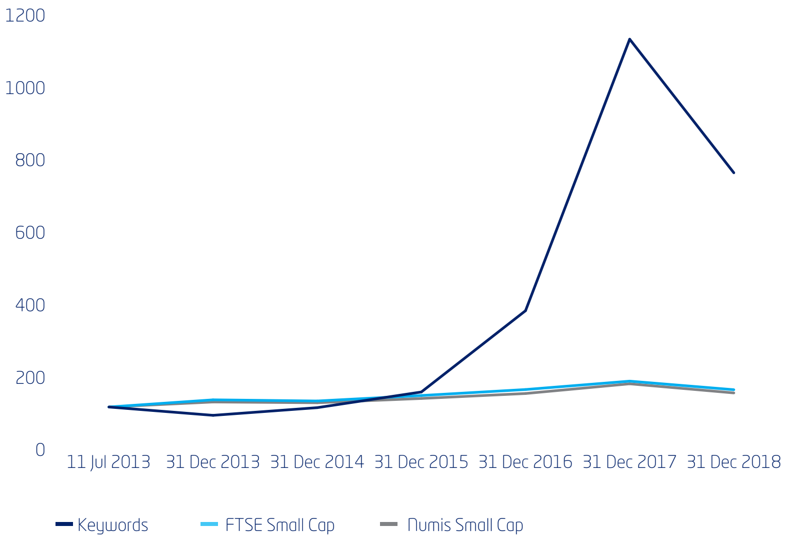
TSR performance up to 31 December 2018



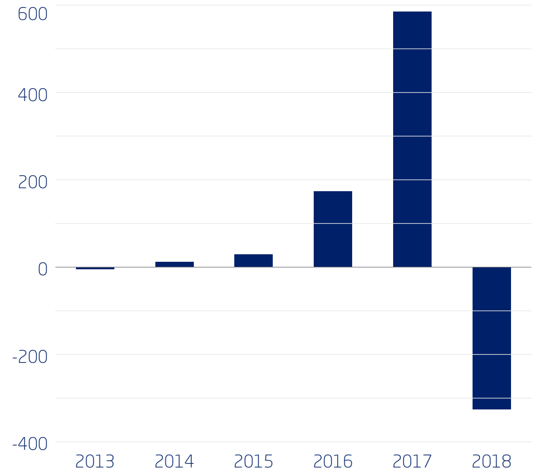
TSR performance

The charts below show (i) the Company's TSR since listing versus the FTSE Small Cap and Numis Smaller Companies indices, and (ii) the shareholder value created each financial year based on share price growth and dividends paid.

Value of £100 invested in July 2013



Shareholder value created each year £m



Shareholder value created each year is based on the increase in share price plus dividends paid over each financial year multiplied by the shares outstanding at the start of each year

Implementation of the Remuneration Policy in 2019

Salary

With effect from 1 March 2019, salary increases of 16% and 5% have been awarded to the CEO and CFO, such that their salaries will be £240,000 and €168,695 respectively. The Remuneration Committee consider the increases to be appropriate given the very material rise in the size and complexity of the business during 2018. Even after the salary increases, the Executive Directors still have base salaries in the bottom quartile for a company of equivalent size, consistent with the Company's Remuneration Policy.

Annual Bonus

The Executive Directors will be eligible to earn annual bonuses of up to 30% of salary in line with previous years.

LTIP

The Remuneration Committee intends to make awards under the LTIP to the Executive Directors in line with previous years to the CEO and CFO respectively. The Remuneration Committee considered the TSR benchmark for the LTIP awards and concluded that from 2019, awards will vest based on the Company's TSR performance versus the FTSE Small Cap Index (previously the Numis Smaller Companies (excluding Investment Trusts) Index) over a 3-year period, it being considered a more visible and accessible representative index of similar companies. Threshold vesting (10% of the award) will vest for TSR in line with the Index and full vesting will be earned for exceeding the Index TSR by 20% over the performance period.

Non-Executive Directors' remuneration

The Board has reviewed the Non-Executive Director fee structure and has agreed a specific fee card based on the roles and responsibilities of the directors (see table below) to take effect 1 March 2019. The Committee reviewed the Chairman fee during 2018 and approved an increase from £69,244 to £90,000 in line with the increased scale of the business and after considering relevant internal and external benchmarks. The Board considers this revised fee structure to be more appropriate given the material rise in the size and visibility of the Company.

Role	Ross Graham*	David Reeves	Giorgio Guastalla	Charlotta Ginman	Georges Fornay
Board Chairman	£90,000				
Senior Independent Director fee		£5,000			
Non-Executive Director basic fee		£48,000	£48,000	£48,000	£48,000
Additional fees:					
Chairman of the Audit Committee				£12,000	
Chairman of the Remuneration Committee		£12,000			
Member of:					
Audit Committee		£3,000			£3,000
Remuneration Committee				£3,000	
Total	**£90,000**	**£68,000**	**£48,000**	**£63,000**	**£51,000**

*Ross Graham receives no additional fees on top of his Board Chairman fee for his membership of the sub-committees

Directors' Remuneration Report
continued

Directors' interest in shares

The interests of each person who was a Director of the Company (together with interests held by his or her connected persons) were:

	At 31 Dec 18	At 31 Dec 17
Giorgio Guastalla[1]	**3,600,662**	3,600,662
Andrew Day	**3,296,573**	3,296,573
Ross Graham	**58,440**	58,440
David Reeves	**32,400**	32,440
Georges Fornay	**5,142**	3,142
Charlotta Ginman	**1,733**	1,071
	6,994,950	6,992,288

1 Giorgio Guastalla's indirect shareholding arises out of his 90% holding in P.E.Q. Holdings Limited.

The outstanding LTIP and Option awards held by each Executive Director of the Company are as follows.

LTIP

	Number at 31 Dec 17	Number granted during the year	Number vesting during the year	Number lapsed during the year	Number at 31 Dec 18	Vesting date	Current vesting expectation**
Andrew Day	86,593	–	–	–	86,593	12 Jul 2016*	
	35,000	–	35,000	–	35,000	01 Jun 2018*	
	60,000	–	–	–	60,000	10 May 2019	100%
	52,000	–	–	–	52,000	15 May 2020	100%
	–	50,000	–	–	50,000	18 May 2021	0%
David Broderick	30,000	–	–	–	30,000	03 Oct 2019	100%
	30,000	–	–	–	30,000	15 May 2020	100%
	–	25,000	–	–	25,000	18 May 2021	0%
	293,593	75,000	35,000	–	368,593		

*Awards have vested

**Vesting expectation (% of award) is based on the achievement of the TSR performance condition up to 31 December 2018

The awards in the table above vesting in 2019 and 2020 were granted subject to the Company's TSR performance versus the Numis Smaller Companies (excluding Investment Trusts) Index over a 3-year period with a 4-year exercise window and continuous employment; threshold vesting (10% of the award) will vest for TSR in line with the Index and full vesting will be earned for exceeding the Index TSR by 45% over the performance period. The awards in the table above vesting in 2021 were granted subject to the TSR condition as described in the Section above "Long-term incentives granted during 2018" being the same criteria save that full vesting applies for exceeding the same Index by 20% (previously 45%).

Share Option Plan

	Number at 31 Dec 17	Number granted during the year	Number exercised during the year	Number lapsed during the year	Number at 31 Dec 18	Vesting date
Andrew Day	21,167	–	–	–	21,167	12 Jul 2015
	21,167	–	–	–	21,167	12 Jul 2016
	21,168	–	–	–	21,168	12 Jul 2017
	63,502	–	–	–	63,502	

Executive Directors no longer receive awards under the Share Option Plan. Awards of options in the table above have all vested and shall lapse the day before the seventh anniversary of the Date of Grant (12 July 2013), assuming it is not exercised before then and no event occurs to cause it to lapse earlier under the Rules.

David A Reeves.

Dr David Reeves
Chairman of the Remuneration Committee

Report of the Nomination Committee

Roles and responsibilities

The role of the Committee is to develop and maintain a formal, rigorous and transparent procedure for making recommendations on appointments and re-appointments to the Board. In addition, it is responsible for reviewing the succession plans for the Executive Directors and the Non-Executive Directors. This involves:

- Reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes.
- Assessing the effectiveness and performance of the Board and each of its Committees including consideration of the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness.
- Considering succession planning for directors and members of the Executive Management Team.
- Identifying and nominating new members to the Board.
- Reviewing the results of the Board performance evaluation process that relate to the composition of the Board.
- Reviewing annually the time input required from Non-Executive Directors.

Diversity

The Committee reviews the Board Diversity Policy annually and did so most recently at its 28 June 2018 meeting. The policy acknowledges that an effective Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors and emphasises that in identifying suitable candidates for appointment to the Board, the Committee will consider candidates on merit against objective criteria, with due regard for the benefits of diversity on the Board.

Governance processes

The Committee meets at least 1 time a year and at such other times as the Committee Chair or any member of the Committee may request. In 2018, the Committee met 4 times. The Committee has formal terms of reference which can be viewed on the Company's website, www.keywordsstudios.com.

Main activities

Succession

The Board is committed to effectively managing leadership succession and proactively engages with the senior management team to assess the executive talent pool. The Committee and the Board receives regular contributions from individuals in the wider executive group at meetings of the Board and Committees throughout the year. These contributions are valuable for our decision making and have helped the Non-Executive Directors to develop a clear understanding of the strength of the management team.

Succession planning is designed to consider the planned process of transition to new leadership over time and also the potential for unforeseen change over a shorter timeframe. The Committee keeps in touch with the talent development process throughout the organisation, conscious of the strategic importance of promoting from within as far as possible to support the Company's growth plans as set out in the Strategic Report.

Senior management succession planning will continue to be a focus for 2019.

Board and Committee Composition

The Committee also reviewed the size, composition and skill set of the Board during the year and concluded that there was an appropriate mix of experience, skills and knowledge to provide strong and effective leadership.

Board Performance Evaluation

The Board, on the Committee's recommendation conducted a board evaluation at the end of 2018. The findings from this evaluation, based on an in-depth questionnaire issued to each Director, were very positive and provided a number of valuable insights and recommendations which we will follow up on in 2019.

Role of the Company Secretary

In light of the growth of the business and the increasing complexity of the regulatory environment the Committee considered that the Company had reached the point where the Company Secretariat merited dedicated resource, independent of the finance function. On 28 June 2018, Liam O'Donoghue of ONE Advisory was appointed company Secretary, reporting to the Chairman and CEO.

Annual evaluation of the Nomination Committee's performance

This year's annual internal Board and Committee evaluation exercise was designed and led by the Company Secretary, working closely with the Chairman of the Board in order to provide objectivity. The areas covered were: structure & skills, operating effectiveness, operating efficiency, quality of information and ongoing development. The Board evaluation exercise identified a number of positive areas including the appointment of additional Non-Executive Directors during the year, the appointment of an independent Company Secretary and application of corporate governance practices. Although the Board and sub-committees are working well, areas highlighted for improvement include the need to spend more time discussing the effectiveness of the Company's strategy from a day-to-day standpoint, and more site visits to the Company's studio locations. These matters will be addressed during the 2019 financial year. In addition, individual reviews of Non-Executive Director's performances were carried out by the Chairman, and the performance of the Chairman was reviewed by the rest of the Directors. This concluded that overall the Chairman devotes adequate time of the Company's business, stays abreast of developments affecting the Company, and shows a strong understanding of the business.

Ross Graham
Chairman of the Nomination Committee
8 April 2019

Independent Auditor's Report to the members of Keywords Studios plc

Opinion
We have audited the financial statements of Keywords Studios plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity, and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRCs Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1 Revenue Recognition – cut off
Key Audit Matter

Although the majority of the Groups revenue contracts are non complex in nature, there is a material accrued revenue balance as at 31 December 2018 of €6.3m (2017: €5.1m). We focused on this area due to the risk of management manipulation of the timing of revenue recognition and the cut off relating to accrued revenue at the year end.

Related Disclosures

Refer to note 2 of the accompanying consolidated financial statements for the accounting policies of the Group in relation to Revenue Recognition.

Audit Response

We have performed audit procedures to understand the application of the revenue recognition accounting policies and to assess whether for each material revenue stream, that revenue has been recognized correctly in accordance with the Group Revenue Recognition policy. We have completed a substantive based audit approach across all full scope locations and completed specific audit procedures on a sample basis on less significant components of the group.

Our audit work included, but was not restricted to, validating a sample of transactions both throughout the year and around the year end, to assess that the stage of completion and therefore accrued revenue is reflective of the underlying project status. We have tested these transactions to supporting documentation such as sales orders and contracts from customers, project status evidence, and subsequent billing. When examining samples of transactions around the year end we have assessed whether the revenue has been recognised in the correct period.

2 Business Combinations

Key Audit Matter

The Group has entered into a significant number of acquisitions and business combinations throughout the year, which have had a material and extensive impact on the group's financial performance and position.

Following the purchase price allocations (in which identifiable assets and liabilities assumed were recognised at fair value), €154m (2017: €108m) of goodwill has been recognised cumulatively to date. The fair value of certain identifiable assets acquired and liabilities assumed in a business combination is different from their carrying amounts in the acquired statements of financial position which can give rise to fair value adjustments as part of the purchase price allocations of these business combinations. Accordingly, the cumulative acquisitions are material and significant judgement is required in relation to the purchase price allocations including the resulting goodwill.

Management determined the fair value of the identifiable assets and liabilities and notably the value of the customer relationships. The valuation of these assets was primarily based upon the expected future cash flows related to these acquisitions.

A number of these acquisitions have also included deferred consideration in the form of shares and cash payments at future dates, which add further complexity with regard to the acquisition-date fair value of such consideration as part of the consideration transferred in exchange for the acquisitions and business combinations.

Related Disclosures

Refer to note 2 of the accompanying consolidated financial statements for the accounting policy in relation to business combinations. In addition, detailed disclosures have been made in relation to each business combination in note 28 to the financial statements.

Audit Response

We have reviewed the underlying contracts and share purchase agreements relating to each acquisition to assess whether the basis for treatment of the acquisitions is in accordance with the accounting policy and International Financial Reporting Standard 3 – Business Combinations.

We have assessed the carrying value of each material balance at the date of acquisition, and have reviewed management's assessments of the fair value of the assets and liabilities acquired, and in particular, the methodology applied in the valuation of intangible assets and goodwill.

Our procedures included;

- We reviewed the methodology applied to identify the categories of intangible assets,
- We evaluated whether the cash flow forecasts used in the valuation are consistent with information approved by the Board and have reviewed the historical accuracy of management's forecasts in order to assess the reliance which can be placed upon managements forecasting,
- We have challenged the key assumptions such as the growth factors and discount rates by comparing them to relevant market rates and historic acquisitions to verify that management had been consistent in its approach to valuations, and
- We assessed the adequacy of the acquisition disclosures in the Group's financial statements.

In addition, we have examined the terms of all business combinations to assess whether the fair value of any deferred / contingent consideration is treated appropriately in accordance with the group accounting policy and IFRS 3.

We also examined the key post combination employment contracts of former shareholders of the acquired entities, reviewing the substance of the transactions and considered whether they have been appropriately accounted for in line with the group accounting policy and the requirements of IFRS 3.

3 Valuation of goodwill and intangible assets

Key Audit Matter

As a result of both the current year and prior year acquisitions, the group has amassed significant intangible assets and goodwill balances. These balances are material to the financial statements, with goodwill carrying value of €154m (2017: €108m), and intangibles carrying value of €25.9m (2017: €23.5m).

The valuation of goodwill and other intangible assets is significant to our audit due to the fact that the impairment test calculations are based on several key assumptions which are estimated by management, and are by nature judgemental. Key assumptions include the expected future cash flows for the forecasting period, the discount rates and perpetual growth rate.

The Directors have concluded that there is one cash generating unit ("CGU") in the group, for the purposes of impairment assessment.

Related Disclosures

Refer to note 2 of the accompanying consolidated financial statements for the accounting policy in relation to business combinations, intangible assets and goodwill. In addition, detailed disclosures have been made in relation to each business combination in notes 28 and 29 to the financial statements. Detailed disclosures are made in note 11 relating to goodwill, and note 12 in relation to intangible assets.

Independent Auditor's Report
continued

3 Valuation of goodwill and intangible assets continued

Audit Response

We have reviewed the Directors assessment of the carrying value of goodwill and intangible assets. We have challenged the Directors assumptions in relation to CGU identification, cash flow forecasting, discount rates applied, and future growth rates.

Our procedures included;

- We have evaluated that the CGU identified is the lowest level at which management monitors goodwill and intangible assets,
- We have reviewed the accuracy of the cash flow forecasts used, and ensured that these represent those which are reviewed by the Board,
- We have reviewed and assessed the accuracy of the historical forecasts prepared by the Group,
- We have assessed the key estimates and inputs into the discounted cash flow models, including the growth rates assumed, and tested these where possible to supporting evidence such as post year end activities,
- We have completed sensitivity analyses in relation to the cash flow models and have stress tested all key assumptions used, and
- We have considered the appropriateness of the disclosures relating to the valuation of goodwill and intangible assets in the financial statements.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions in the financial statements, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account the nature of identified misstatements, and in particular the circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the financial statements as a whole to be €2.2m, which represents 10% of profit before taxation and represents less than 2% of equity. We consider profit before income tax to be the most significant determinant of the group's financial performance used by shareholders and other users and therefore consider this as an appropriate basis for materiality. Our materiality is higher than the level we set for the year ended 31 December 2017 (€1.2m), due to the increased profits and equity position of the group.

We agreed with the Audit Committee that we would report to the Committee all individual differences identified during the course of our audit in excess of €110,000, (2017: €60,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its environment, including the group wide controls, and assessing the risks of material misstatement identified at group level. The Group has operations in 21 countries, and 66 wholly owned subsidiary entities.

Based on our assessment, we have completed full scope audit procedures in relation to the following entities; Keywords Studios plc, Keywords International Limited, Sillabit S.R.L, Sperasoft Studios LLC, Cord Worldwide Limited, Studio Gobo Limited, Bitsy SG Limited, Electric Square Limited, Itsy SGD Limited, Alset Limited, and Keywords Studios Italia S.R.L (formerly Binari Sonori S.R.L).

In addition, specific audit procedures have been completed in relation to certain material balances and transaction streams in Keywords Studios QC-Games Inc (formerly Babel Games Services Inc), VMC Consulting Corporation, Keywords Canada Holdings Inc (formerly Volt Canada Inc), Keywords Studios QC-Tech Inc (formerly Alchemic Dream Inc), Keywords (Shanghai) Information Technology Ltd, Synthesis Global Solutions SAS, Keywords Studios QC-Interactive Inc (formerly Enzyme Testing Lab Inc), Sperasoft Inc, and Lakshya Digital Private Limited.

The above entities represent 73% of group revenues and over 90% of profit before tax.

Whilst materiality for the financial statements as a whole was €2.2m, each component of the group was audited to a lower level of materiality. Audits of these components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned.

The Group auditor, BDO Dublin, has audited Keywords Studios plc, Keywords International Limited, Cord Worldwide Limited, Studio Gobo Limited Bitsy SG Limited, Electric Square Limited, Itsy SGD Limited, Alset Limited, and Keywords Studios QC-Interactive Inc (formerly Enzyme Testing Lab Inc). Their involvement in the work performed by other component auditors varies by location and involves, at a minimum, direction of the audit procedures to be completed, and review of the reports received in relation to the results of the audit work undertaken by component audit teams.

In the current year, the Senior Statutory auditor or senior members of the Group audit team have visited the following reporting locations on planned visits: Canada (Babel Media, Volt), Russia (Sperasoft Studios LLC and Sperasoft Inc), and China (Keywords Shanghai). These visits are to direct and review the work performed by component auditors.

At the parent company level we have also tested the consolidation process and carried out additional procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to full scope or specific procedures.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 42 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

John O'Callaghan (Senior Statutory Auditor)
For and on behalf of BDO, Statutory Auditor
Dublin 2, Ireland
8 April 2019

Consolidated Statement of Comprehensive Income

	Note	Years ended 31 December 2018 €'000	 2017 €'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 gain / (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 from page 67 onwards form an integral part of these consolidated financial statements.

On behalf of the Board

Andrew Day
Director
8 April 2019

David Broderick
Director

Consolidated Statement of Financial Position

	Note	At 31 December 2018 €'000	2017 Restated (note 31) €'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	19	**1,378**	1,055
Loans and borrowings	20	**230**	337
Deferred tax liabilities	26	**8,488**	7,795
		11,158	10,420
Total equity and liabilities		**298,564**	223,109

The notes from page 67 onwards form an integral part of these consolidated 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
Director
8 April 2019

David Broderick
Director

Consolidated Statement of Changes in Equity

	Share capital €'000	Share capital / shares to be issued €'000	Share premium €'000	Merger reserve €'000	Foreign exchange reserve €'000	Shares held in EBT €'000	Share option reserve €'000	Retained earnings €'000	Total equity €'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

	Note	Years ended 31 December 2018 €'000	2017 €'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.

Company Statement of Financial Position

	Note	At 31 December 2018 €'000	2017 €'000
Non-current assets			
Property, plant and equipment	13	**389**	1
Investment in subsidiaries	21	**30,670**	30,659
Other receivables	15	**175,509**	3,300
		206,568	33,960
Current assets			
Other receivables	15	**1,737**	129,153
Cash and cash equivalents		**438**	6,261
		2,175	135,414
Total assets		**208,743**	169,374
Equity			
Share capital	16	**763**	737
Share capital - to be issued	16	**15,648**	11,739
Share premium	16	**102,225**	102,054
Merger reserve		**41,677**	34,561
Shares held in EBT		**(1,997)**	(1,997)
Share option reserve		**6,674**	2,545
Retained earnings		**(2,538)**	(311)
		162,452	149,328
Current liabilities			
Trade payables		**285**	215
Other payables	18	**5,435**	1,578
Loans and borrowings	20	**40,000**	18,250
Corporation tax liabilities		**3**	3
		45,723	20,046
Non-current liabilities			
Other payables	18	**568**	-
Total equity and liabilities		**208,743**	169,374

In accordance with Companies Act 2006, the Company is availing of the exemption from presenting its individual Statement of Comprehensive Income to the Annual General Meeting and from filing it with Companies House. The amount of (loss) / profit after tax dealt with in the parent undertaking is (€1,147k), (2017: €9,161k).

The notes on pages 67 onwards 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
Director
8 April 2019

David Broderick
Director

Company Statement of Changes in Equity

	Share capital €'000	Share capital / shares to be issued €'000	Share premium €'000	Merger reserve re-structuring €'000	Merger reserve acquisitions €'000	Shares held by EBT €'000	Share option reserve €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2017	**654**	**8,792**	**19,983**	**5,313**	**22,479**	**(1,434)**	**1,305**	**(8,605)**	**48,487**
Profit / (loss) for the period	–	–	–	–	–	–	–	9,161	9,161
Total comprehensive income for the period	–	–	–	–	–	–	–	9,161	9,161
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 reserves	–	–	(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**	**5,313**	**29,248**	**(1,997)**	**2,545**	**(311)**	**149,328**
Profit / (loss) for the period	–	–	–	–	–	–	–	(1,147)	(1,147)
Total comprehensive income for the period	–	–	–	–	–	–	–	(1,147)	(1,147)
Contributions by and contributions to the owners:									
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	3,909	–	–	7,116	–	–	–	11,048
Contributions by and contributions to the owners	26	3,909	171	–	7,116	–	4,129	(1,080)	14,271
Balance at 31 December 2018	**763**	**15,648**	**102,225**	**5,313**	**36,364**	**(1,997)**	**6,674**	**(2,538)**	**162,452**

Company Statement of Cash Flows

	Note	2018 €'000	2017 €'000
		Years ended 31 December	
Cash flows from operating activities			
Profit / (loss) after tax		**(1,147)**	9,161
Income and expenses not affecting operating cash flows			
Share option expense		**255**	100
Interest income		**(12)**	(268)
Share issuance costs		**-**	203
Interest expense		**669**	366
Depreciation	13	**27**	-
Amounts written off financial assets		**127**	-
		1,066	401
Changes in operating assets and liabilities			
(Increase) / decrease in other receivables		**2,393**	(10,400)
Increase / (decrease) in trade and other payables		**4,505**	228
		6,898	(10,172)
Income taxes paid / (refunded)		**-**	-
Net cash generated / (used) by operating activities		**6,817**	(610)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(415)**	-
Interest received		**12**	-
Net cash used in investing activities		**(403)**	-
Cash flows from financing activities			
Repayment of loans		**(10,100)**	-
Financing the acquisition of subsidiaries		**(32,401)**	(85,604)
Loan to finance acquisitions	30	**31,850**	10,250
Dividends paid	9	**(1,080)**	(867)
Shares issued	16	**174**	82,936
Financing EBT for share options exercised		**-**	(563)
Interest paid		**(680)**	(229)
Net cash generated / (used) in financing activities		**(12,237)**	5,923
Increase / (decrease) in cash and cash equivalents		**(5,823)**	5,313
Cash and cash equivalents at beginning of the period		**6,261**	948
Cash and cash equivalents at end of period		**438**	6,261

Notes Forming Part of the Consolidated and Company 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 parent company financial statements present information about the Company as a separate entity and not the Group.

The consolidated and Company 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, and for the Company are inter-group 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 Company assesses the requirement for the impairment of inter-group receivables on the basis of the expected credit loss rate, and a small provision was recorded as at 31 December 2018 (note 23). 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.

Notes Forming Part of the Consolidated and Company Financial Statements
continued

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.

2 Significant Accounting Policies continued

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.

Notes Forming Part of the Consolidated and Company Financial Statements continued

2 Significant Accounting Policies continued

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.
- 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.
- 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.
- 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.

2 Significant Accounting Policies continued

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.

Notes Forming Part of the Consolidated and Company Financial Statements continued

2 Significant Accounting Policies continued

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.

2 Significant Accounting Policies continued

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.
- **Expected Credit Loss Provision on Company Receivables From Subsidiaries:** As outlined in note 22, the Company has significant receivables from subsidiaries primarily related to investments in acquisitions. The Directors have assessed that they view a significant increase in credit risk to exist if there is evidence that a loan is 30 days past due its recoverable date, or if there is external or internal indicators that the subsidiary will not be in a position to repay its loan balances as it falls due. Similarly, the Group will conclude that a loan is in default if the scheduled repayments of either principal or interest are not being met. The Directors have assessed that loans due from subsidiaries of €175.5m (within Stage 1 of the IFRS 9 impairment assessment model), are within their repayment terms, and no significant increase in credit risk is noted. Furthermore having assessed the ongoing expected recovery strategy of these loans, the Directors have concluded that no material provision for expected credit losses is required. Separately the Company has balances of €1.6m, which are technically repayable upon demand. These loans are within Stage 3 of the IFRS 9 impairment assessment model. The Directors have reviewed in detail the recovery strategy in relation to these loans and have concluded that the majority of these loans will be recoverable

Notes Forming Part of the Consolidated and Company Financial Statements continued

3 Critical Accounting Estimates and Judgements continued

Judgements continued

and therefore there is no material expected credit loss provision required. A small number of such loans are technically in a credit-impaired status. An expected credit loss of €183k (2017: nil) has been recognised in relation to these balances. Following on the rapid expansion of the Group, the Directors have commenced a re-structuring program with a view to optimising the Group structure, facilitate tax efficient repatriation of cash and re-payment of loans throughout the Group. The Directors have taken into account both the re-structuring program and the cash generating capacity of the Group, in concluding that all such loans are recoverable and the expected credit loss provisions are adequate.

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

4 Revenue From Contracts With Customers and Segmental Analysis continued

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

	2018 €'000	2017 Restated (note 31) €'000
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

Notes Forming Part of the Consolidated and Company Financial Statements
continued

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

Auditors' remuneration	2018 €'000	2017 €'000
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 €'000	2017 Restated €'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 loss	**-**	(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 the more meaningful.

7 Taxation

	2018 €'000	2017 Restated €'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 €'000	2017 Restated €'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)

Notes Forming Part of the Consolidated and Company Financial Statements continued

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

	Number	Number
Denominator (weighted average number of equity shares)		
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 €'000	2017 €'000
Salaries & related costs	**146,785**	81,563
Share based payment costs	**4,129**	1,426
	150,914	82,989

Key management compensation:

	2018 €'000	2017 €'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

Company

	2018	2017
Average number of employees		
Operations	**-**	-
General & administration	**13**	8
	13	8

Notes Forming Part of the Consolidated and Company Financial Statements
continued

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 €'000	Intellectual property €'000	Music licences €'000	Total €'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 €'000	Office furniture and equipment €'000	Leasehold improvements €'000	Total €'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**

Company

	Computers and software €'000	Office furniture and equipment €'000	Leasehold improvements €'000	Total €'000
Cost				
At 1 January 2017	2	–	–	2
Additions	–	–	–	–
At 31 December 2017	**2**	**–**	**–**	**2**
Currency revaluation	**–**	**–**	**–**	**–**
Additions	**2**	**145**	**268**	**415**
At 31 December 2018	**4**	**145**	**268**	**417**
Accumulated depreciation				
At 1 January 2017	–	–	–	–
Depreciation charge	1	–	–	1
At 31 December 2017	**1**	**–**	**–**	**1**
Depreciation charge	**1**	**8**	**18**	**27**
At 31 December 2018	**2**	**8**	**18**	**28**
Net book value				
At 31 December 2017	1	–	–	1
At 31 December 2018	**2**	**137**	**250**	**389**

Notes Forming Part of the Consolidated and Company Financial Statements
continued

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

Company Short Term

	2018 €'000	2017 €'000
Intercompany receivables (financial assets held at amortised cost)	**1,600**	129,056
Prepayments	**109**	45
Other receivables	**28**	52
	1,737	129,153

Company Long Term

	2018 €'000	2017 €'000
Intercompany receivables (financial assets held at amortised cost)	**175,509**	3,300
	175,509	3,300

* 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 are 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 in the Employee Benefit Trust ("EBT")

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

Notes Forming Part of the Consolidated and Company Financial Statements continued

16 Shareholders' Equity continued

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	

17 **Share Options** continued

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	

Notes Forming Part of the Consolidated and Company Financial Statements
continued

17 Share Options continued

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 €'000	2017 Restated (note 31) €'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

18 Other Payables continued

Company

	2018 €'000	2017 €'000
Current		
Intercompany payable	**4,572**	174
Accrued expenses	**784**	382
Payroll taxes	**66**	-
Other payables	**13**	51
Deferred and contingent consideration (i)	**-**	971
	5,435	1,578
Non-current		
Intercompany payable	**568**	-
Deferred and contingent consideration (i)	**-**	-
	568	-

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

Group

	2018 €'000	2017 Restated (note 31) €'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 (notes 28, 29)	**17,068**	1,885
Fair value adjustment (note 5)	**766**	-
Translation adjustment	**122**	59
	19,306	3,642

Company

	2018 €'000	2017 €'000
Opening balance	**971**	860
Consideration settled by shares	**(1,000)**	-
Unwinding of discount	**29**	111
	-	971

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.

Notes Forming Part of the Consolidated and Company Financial Statements
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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 €'000	2017 €'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 €'000	2017 Restated €'000
Actuarial valuations		
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.

Cost for year		
Service cost	**247**	199
Interest cost	**32**	11
Actuarial (gain) / loss	**(27)**	25
	252	235
Actuarial (gain) / loss		
Change due to experience	**2**	17
Change due to demographical assumptions	**(38)**	30
Change due to financial assumptions	**9**	(22)
	(27)	25

19 Employee Defined Benefit Plan continued

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%.

	2018	2017
Economic & Financial Assumptions		
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

Notes Forming Part of the Consolidated and Company Financial Statements
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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 €'000	2017 €'000
Euro	**40,000**	18,301
Canadian Dollars	**301**	347
US Dollars	**-**	632
	40,301	19,280

Company

	2018 €'000	2017 €'000
Euro	**40,000**	18,250
	40,000	18,250

(ii) Capital management

Group

	2018 €'000	2017 €'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

Company

	2018 €'000	2017 €'000
	30,670	30,659

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

Details of the Company and Group's subsidiaries as at 31 December 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 LLC	USA	20-Aug-15	100%	411 SW 2nd Ave #300, Portland, OR 97204, USA

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21 Investment in Subsidiaries continued

Name	Country of incorporation	Date of incorporation / acquisition	Proportion of voting rights and ordinary share capital held	Registered office
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.	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 Ltd	UK	30-May-18	100%	98 Chingford Mount Road, South Chingford, London, E4 9AA
Fire Without Smoke Inc.	USA	29-May-18	100%	12701 Marblestone Drive, Suite 330, Woodbridge, Virgina, 22192 USA

21 Investment in Subsidiaries *continued*

Name	Country of incorporation	Date of incorporation / acquisition	Proportion of voting rights and ordinary share capital held	Registered office
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 €'000	2017 €'000
Operating Expenses		
Canteen charges	**44**	57
	44	57

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

	2018 €'000	2017 €'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.

Notes Forming Part of the Consolidated and Company Financial Statements
continued

22 Related Parties and Shareholders continued

	2018 €'000	2017 €'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.

As at 31 December 2018 and 2017, the Company had amounts receivable from its subsidiaries as follows:

Company

	2018 €'000	2017 €'000
Receivables from subsidiaries related to investment in acquisitions	**175,509**	117,732
Receivables from subsidiaries relating to trading activities	**1,600**	14,624
	177,109	132,356

Company

	2018 €'000	2017 €'000
Company Short Term	**1,600**	129,056
Company Long Term	**175,509**	3,300
	177,109	132,356

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.

23 Financial Instruments and Risk Management continued

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

Group

	Total €'000	Not past due €'000	1-2 months overdue €'000	More than 2 months past due €'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 €'000	2017 €'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 €'000	Not past due €'000	1-2 months overdue €'000	More than 2 months past due €'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).

Company

As presented in note 22, receivables from subsidiaries relating to investments in acquisitions, comprise term loans extended to subsidiaries, while receivables from subsidiaries relating to trading activities, comprise trading balances repayable on demand. Balances are analysed in terms of the risk profile of the subsidiary. A small number of balances were deemed to be technically credit impaired under IFRS 9, and an expected credit loss of €183K (2017: nil), was recognised in the period related to these receivables. Taking into account internal and external information, it was determined that a significant increase in credit risk had not occurred in the reporting period for the remaining receivables from subsidiaries. A 12 month expected credit loss of €nil (2017: €nil) was recognised in the period related to these receivables.

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.

Notes Forming Part of the Consolidated and Company Financial Statements continued

23 Financial Instruments and Risk Management continued

Currency Risk continued

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 and Company statements 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 and Company's financial liabilities:

Group

Year ended 31 December 2018	**Total €'000**	**Within 1 year €'000**	**1-2 years €'000**	**2-5 years €'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 €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'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		

Company

Year ended 31 December 2018	**Total €'000**	**Within 1 year €'000**	**1-2 years €'000**	**2-5 years €'000**
Trade payables	**285**	**285**	**-**	**-**
Deferred and contingent consideration (i)	**-**	**-**	**-**	**-**
Other payables	**6,003**	**5,435**	**-**	**568**
Loans and borrowings	**40,000**	**40,000**	**-**	**-**
Loan interest	**55**	**55**		

Year ended 31 December 2017	Total €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'000
Trade payables	215	215	-	-
Deferred and contingent consideration (i)	971	971	-	-
Other payables	607	607	-	-
Loans and borrowings	18,250	18,250	-	-
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 €'000	2017 €'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 €'000	**Interest €'000**	**Present value €'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

Notes Forming Part of the Consolidated and Company Financial Statements
continued

26 Deferred Tax

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

	Asset 2018 €'000	**Liability 2018 €'000**	**Net 2018 €'000**	**(Credited) / charged to Income Statement 2018 €'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 2017 €'000	Liability 2017 €'000	Net 2017 €'000	(Credited) / charged to Income Statement 2017 €'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 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**

Notes Forming Part of the Consolidated and Company Financial Statements
continued

28 Business Combinations / Acquisitions Completed in the Current Year continued

Net cash outflow arising on acquisition

	Cord €'000	Laced €'000	Maximal €'000	Fire Without Smoke €'000	Blindlight €'000	Snowed In €'000	Studio Gobo & Electric Square €'000	The TrailerFarm €'000	Total 2018 €'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 H1	1,721	47	243	1,653	1,139	1,013	7,286	534	**13,636**
Pre-acquisition revenue in 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**
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	–	–		**222,767**
Fixed amount agreed to be issued	–	–	–	160,842	66,262	–	–	–	–	252,248	10,106	**489,458**

Notes Forming Part of the Consolidated and Company Financial Statements
continued

29 Business Combinations / Acquisitions completed in 2017 continued

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	24,754	8,902	449	43,462
Pre-acquisition revenue in 2017 H2	–	–	–	–	588	44	193	903	17,822	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**	**50,345**	**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)	824	(34)	–	2,336
Pro forma profit / (loss) before tax	**(213)**	**(32)**	**461**	**1,153**	**-**	**109**	**40**	**113**	**3,182**	**(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
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 follows:

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.

The Company statement of financial position as at 31 December 2017 has not been restated, as the restatement would have no significant effect on the statement of financial position as at that date.

Notes Forming Part of the Consolidated and Company Financial Statements
continued

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%**

EBITDA
EBITDA comprises profit before taxation, adjusted for depreciation, amortisation, both interest income and expense, and exchange gains and losses.

Calculation	Reference in Financial Statements	2018 €'000	2017 €'000	2016 €'000
Profit before taxation	Consolidated Statement of Comprehensive Income	22,094	11,994	9,435
Financing cost	Note 6	1,316	4,467	2,118
Financing income	Note 6	(791)	(26)	(94)
Depreciation	Note 5	5,316	2,730	1,803
Amortisation	Consolidated Statement of Comprehensive Income	6,872	3,038	1,629
Bank charges	Note 6	(503)	(320)	(229)
EBITDA		**34,304**	**21,883**	**14,662**

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%**

Alternative Performance Measures
continued

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.

Return on Capital Employed (ROCE) continued

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 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 cash flow before tax	As Above	29,044	18,309	14,645
Capital expenditure in excess of depreciation –				
Acquisition of property, plant & equipment	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 cash flow		**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 cash flow	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 cash flow before tax & capex adjusted as a % of adjusted profit before tax	**87%**	**84%**	**102%**

Company Information

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