Keywords Studios plc
Annual Report and Accounts

2013

"We are well placed to take advantage of the industry's expected growth and structural change in 2014 & 2015"

Andrew Day
Chief Executive

Contents

Introduction

Keywords is an international technical services provider to the global games industry. Established in 1998, and now with operations in Dublin, Tokyo, Rome, Montreal, Seattle, London, New Delhi and Singapore.

It provides integrated localisation, testing and audio services across 40 languages and 12 games platforms to a blue chip client base in more than 15 countries.

Its customers comprise many well-known blue chip multinational games publishers and developers including 15 out of the 25 most prominent games companies listed by Gartner.

Visit the website for further information

www.keywordsintl.com

At a glance

Keywords is an international technical services provider to the global video games industry, with facilities in Dublin, Tokyo, Rome, Montreal, Seattle, London, Singapore and New Delhi. It has built a strong reputation across its service offerings, which include:

- **Localisation**
  translation and cultural adaption including age rating support across different platforms
- **Localisation Testing**
  testing that the translated and adapted content fits the games context
- **Audio**
  original voice recording, voice over recordings, pre and post production as well as actor selection and management
- **Functional Testing**
  testing for defects and compliance with console specifications

Montreal
- Localisation QA, Functional QA, Localisation
- Audio
- Established in 2010 and expanded in 2014 through Babel acquisition

Dublin (HQ)
- Established in 1998
- Localisation, Localisation QA, Audio Mgmt in 30+ languages

Rome
- Amalgamated 2011
- Localisation & Audio

Singapore
- Started April 2014
- Localisation, Audio, Testing

Seattle
- Established 2012
- Serviced offices for 8, scope to expand to 100
- Onsite Localisation QA Localisation

London (Liquid Violet)
- Acquired in Jan 2014
- Audio

New Delhi (Babel Media)
- Acquired Feb 2014
- Functional QA

Tokyo
- Established in 2010
- Localisation QA, Localisation & Audio

40
Providing integrated localisation, testing and audio services across 40 languages

12
games platforms to a blue chip client base in over 15 countries

15
clients serviced of the 25 most prominent games companies

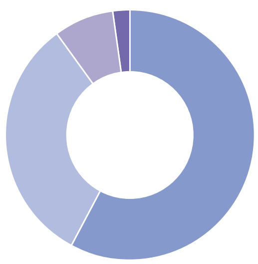
9
studios providing technical services to the global games community

The Group provides integrated localisation, testing and audio services across 40 languages and 12 games platforms to a blue chip client base in over 15 countries from its 9 studios on 3 continents.

As Keywords provides services to the global video games market, across all platforms without the risks of game creation, the Company is ideally placed to take advantage of the key growth drivers for the industry:

- **Geographic expansion** – an expansion of geographic markets and, therefore, the languages that games content is localised for and translated into;
- **Growth in social media** – in both digital and boxed games across social media, smartphone platforms such as iOS and Android, and the traditional console and handheld platforms of PlayStation 4, Xbox One, PlayStation Vita and 3DS, generating more localisation and testing across multiple platforms;
- **Dynamic content trend** – the trend towards richer and more dynamic content and high quality standards which require high calibre localisation and testing; and
- **Increased outsourcing** – the move, by major publishers, to outsource their technical services as the complexity and cost of undertaking these in-house becomes prohibitive.

Divisional revenue split 2013



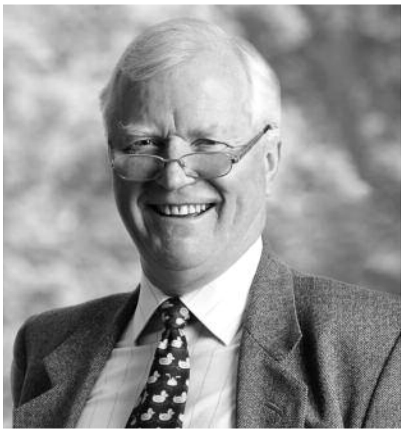
Localisation Testing	58%
Localisation	32%
Audio	8%
Functional Testing	2%

Keywords clients

Microsoft Studios, zynga, SONY Computer Entertainment, WEBZEN, GREE, Nintendo, Disney Interactive Studios, King.com, KIXEYE, Pretty Simple, T2 Take Two Interactive, EA, 505 Games, KONAMI, ACTIVISION, SUPERCELL, glu, CAPCOM, GAMEFORGE, UBISOFT, WB Games, BLIZZARD Entertainment, SOE Sony Online Entertainment, BANDAI NAMCO Games, SQUARE ENIX

Chairman's statement

In this, my first, statement as Chairman in the Company's maiden full year results as a public company following its admission to AIM in July 2013, I would like to set the scene for investors' own review of the Strategic Report and the other components of these Accounts by outlining my initial view of the Company.



Overview

Keywords has a highly motivated and skilled team of executives delivering a high calibre service to its international client base within a fragmented service provider market that is ripe for consolidation. The trend for games producers/developers to outsource localisation activities (translation, localisation testing and functional testing) and related functions (such as audio services) continues to gather pace, offering good opportunities for organic growth. We, therefore, believe that our strategy of harnessing this organic growth opportunity, complemented by acquisitions to extend the Group's client base, geographical presence and service lines, will underpin the Group's significant growth in the medium to long term at stable margins.

We have made considerable progress in line with that strategy, both organically and through acquisition. In the year ended 31 December 2013, we grew revenue by 14.3% to €16.4m despite a transitional period in the games industry which was characterised by an unexpected scaling back in the number of next generation launch territories and delays to some earlier generation games releases due to the industry's focus on two major console releases at the very end of the year.

Following the year end, Keywords acquired in January 2014 Liquid Violet Ltd, a London-based video games voice production services company and in February Babel Media Ltd, a leading provider of outsourced video games services with operations in Canada and India. In March 2014 we started operations in Singapore underpinned by demand from Electronic Arts as they chose to outsource translation, audio and testing services for South East Asian languages to Keywords and we continue to review a number of acquisition opportunities. Adding these businesses to the Group substantially extends its capabilities, customer relationships and geographic reach and we look forward to taking advantage of the synergies that they bring to Keywords.

Keywords timeline

1998

Keywords founded:
by Teresa Luppino (ex Italian language specialist working at Microsoft) and Giorgio Guastalla

2004

Localisation Testing:
Company develops localisation testing process for video games with a key client, covering both functional and linguistic aspects simultaneously

2005

Video game focus:
Keywords adopts strategy of focusing on video game market, earning a reputation for delivering a quality, tailored service

2009

Key appointment:
Andrew Day appointed CEO

New business wins:
Gained new strategic customers

2010

Office expansion:
Moved to new, expanded premises in Dublin

International openings:
Keywords Montreal is opened to service North America

Tokyo facility opened

People and culture

Keywords has a distinct and strong culture which engenders a 'can do' attitude and is founded on the value placed on our people; we trust them and work hard to empower them to perform the best service for each project and each client; we have an inclusive style of management, with a flat structure and transparent project management and performance measures; we measure ourselves and our colleagues on the value they contribute to the organisation. This culture underpins Keywords' success by providing the flexibility to respond quickly and effectively to client requirements. So I would like to pay tribute to all of our team – for their support, hard work and commitment.

Shareholders and dividend

I would also like to thank shareholders for their continued support as we pursue a strategy which we believe will continue to enhance shareholder value and we look forward to sharing an open and prosperous partnership with our new investors following our IPO.

In line with its progressive dividend policy, subject to the retention of funds needed to fund future growth of the Group's business and its strategic aims, the Board is pleased to recommend a final dividend of 0.67p per share which, following the maiden interim dividend payment of 0.33p per share on 28 October 2013, will make the total dividend for the year ending 31 December 2013 1.00p per share. Subject to shareholder approval at the Annual General meeting, the final dividend will be paid on 25 July 2014 to all shareholders on the register at 4 July 2014.

In future years, the Board expects that the interim dividend will be around one third of the total dividend for the year.

Looking ahead

2014 is expected to be a year of significant activity for the games industry driven by games launches to support both the fast growing new generation consoles and the existing 250m previous generation console base, in addition to substantial growth in smartphone gaming.

With a leading market and financial position, Keywords is well placed to take advantage of this industry growth and we expect it to make strong progress, both organically and through acquisition, in our first full financial year as a listed company.

Ross K Graham
Chairman

7 April 2014

2011

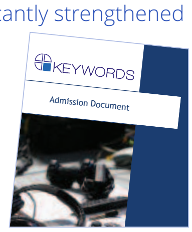
Italian integration:
Keywords Italia SRL, Rome was integrated

2012

US integration:
Keywords Seattle incorporated

2013

AIM listing:
Keywords Studios plc listed on AIM. Flotation raised £28m issuing new shares at 123p each. Significantly strengthened board



2014

Acquisitions:
Liquid Violet and Babel Media acquired

Singapore established:
Singapore Studio established with Electronic Arts as an anchor client

Keywords Studios' strategy is to grow both organically and by acquisition to extend the Group's client base, market penetration and service lines, where the Group can use its existing expertise, multi-service platform, scale and global reach to generate synergies in a highly fragmented games services industry. The Board believes that there is a clear opportunity for Keywords to extend its existing relationships with many of the major games companies through:

Geographical growth

Expanding its global presence, primarily through office expansion thereby increasing headcount and expanding its global client base. In particular, Asia Pacific accounts for three out of the top four video games markets in the world and is projected to be the fastest growing region during the next five years, increasing to $40 billion in 2016 (2011: $24 billion)[1] and Spanish speaking South America is a large growth market for video games.

Outsourcing

Capturing new blue chip customers who are looking to outsource all their localisation requirements as it has become costly for publishers and developers to deliver games localisation all around the world, on multiple platforms in-house.

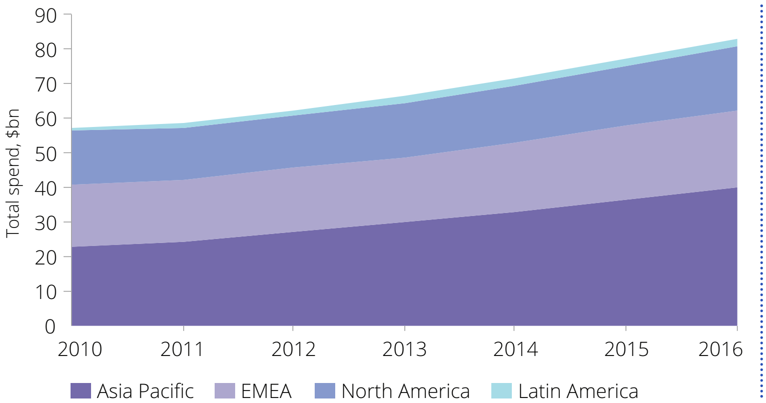
Acquisitions

Selective acquisitions which generate synergies or extend its client base, geographical penetration or service lines

Adjacent activities

Expanding both downstream, into operational support services such as customer services and payment services and upstream, into original games content development, original language audio and motion capture.

Global videogame spending[1]



[1] **Source:** PwC Global Entertainment & Media Outlook 2012-2016.

Business model

Keywords is an outsourced services company providing technical services to the video games industry globally to assist developers and publishers to develop, sell and operationally support their games regardless of the deployment platform or the genre of the game.

Currently, the business provides translation, audio, localisation testing and functional testing services to the video games market across all games platforms including consoles, PCs, the internet, mobile phones and tablets.

These services are delivered through a number of strategically located facilities ("studios") or through the provision of managed services on client's premises.

Services provided by the various Keywords studios are typically differentiated by language mix, scalability, flexibility, price and proximity to clients. Localisation is not limited to translation into multiple languages; developers and publishers need to take into account the varied cultural, technical and legal differences of their global consumers and the quality of localisation is now viewed as a critical factor in the success of a new launch.

The geographical differences require localisation service providers to diligently consider the target gamers' age range, gender and linguistic variables as well as the cultural and political context of the game. As such, Keywords employs games-specialised translators and native speakers who test in-game content in more than 40 languages, giving it a resource base of market leading scale and which its clients would require substantial investment to replicate in-house.

The Directors believe that, through this capability, Keywords has established an industry reputation for quality. The Company's unique selling points, including the use of games-specialised native staff for all languages, the ability to offer their services flexibly on-site at clients' premises or in its specialised and secure global studios, its track record of delivery of services to many of the most prominent games companies, together with its integrated localisation, audio and testing capabilities, differentiates Keywords from its competitors.

Overall, Keywords provides its essential services on a variable cost basis to its blue chip customer base to support those developers and publishers through challenging production and game operation support needs. It works in a highly flexible and efficient manner and its revenues are derived from the provision of these professional services, which are charged largely on a time and materials basis. As such, the Group is not exposed to the successes and failures of individual game titles.

The quantity and quality of game content is the key driver of demand for the Company's services and, thanks to the loyalty of its clients, who have typically increased the percentage of work awarded to Keywords year on year, the Company has grown rapidly over the past five years with minimal investment in business development.

The annual business cycle in the industry varies depending on the market sector. Console and PC games largely follow a seasonal pattern with titles being published for the holiday period including Thanksgiving and Christmas. Mobile, social and online games do not follow this pattern and are not driven by particular release schedules.

As Keywords strengthens its original language game production activities including functional testing and original voice recording (which take place earlier in the game production cycle than localisation services) and the Group increases its penetration of the mobile and social games market, the very marked seasonal revenue curve experienced until two years ago will continue to be offset by greater activity around the year.

Low operational gearing has been and will remain a feature of Keywords business. As the Company undertakes acquisitions it is likely that some of these businesses will operate less flexibly than Keywords, in which case the Directors will explore opportunities to move their operating models closer to those of Keywords.

Keywords is not a capital intensive business but strives to make its people and processes the most productive and efficient. During 2013, the Company invested a total of €0.4m in game testing consoles, PCs and mobile devices to support its testing activities, the Company invested a total of €0.4m in 2013. Cash flow is a strong feature of the business, generally matching net income. In 2013, net income excluding the one-time costs of the IPO amounted to €1.9m, generating operational cash flow of €2.2m.

Delivering a premium service

The Company focuses on quality and delivering a premium service at a competitive price across the following range of services:

Localisation Services: translation of in game text, audio scripts, language quality control services and packaging and marketing materials

Testing Services: non language based functional (core) quality assurance, and localisation testing in over 40 languages using native speaking testers

Audio Services: multi language voice over, original language voice recording and related services

The Market

The global video games market is predicted to grow significantly, with PwC forecasting a CAGR of 6.5 per cent, from $65.5 billion in 2013 to $82.9 billion in 2017[1]. Spending on games software is predicted to grow by solid double digit percentages during the next five years[2]. In 2013, the market for each of the games platforms was as follows:

The proliferation of games platforms (beyond console and PCs to online, social, mobile and cloud-based gaming), and monetisation models (beyond traditional retail sales to in-game purchases and advertising and bolt-on content models) which has been seen in the industry has resulted in a number of key market growth drivers for Keywords; it is taking video gaming into new markets both geographically and demographically; it is making content more dynamic and continuous, as games developers seek to keep users engaged for longer; and it is underpinning a trend towards outsourcing localisation and testing services, as set out below.

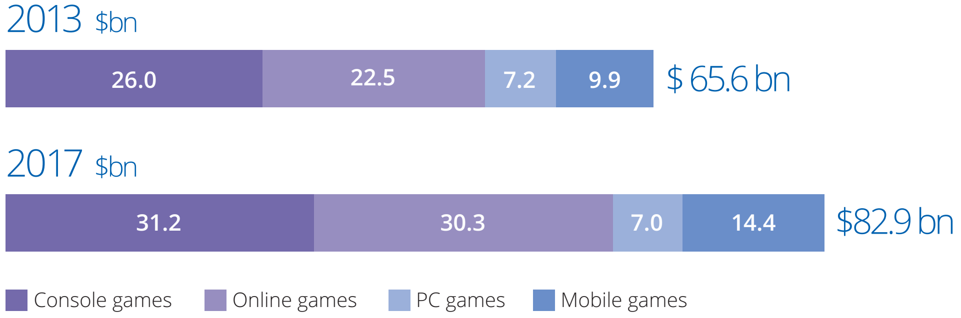
The key drivers of this growth are:

A proliferation of games platforms: although console and PC packaged games currently represent the majority of revenues in the video games market, they are fast being overtaken by mobile social and online gaming. This proliferation of gaming platforms has increased accessibility and opened up new:

- **geographical markets,** given the absence of the requirement for relatively expensive console systems or landline based internet connectivity. The development of mobile gaming in particular has opened up new geographical markets. While the U.S.A. remains the largest video games market in the world, high rates of growth are being seen in developing countries, such as Nigeria, Kenya, India and Vietnam, which have little history of console or PC gaming.
- **demographic markets,** a recent survey of the US entertainment software market by the Entertainment Software Association reveals that of 47% of all game players (video and computer games) are women and that 68% of games players are 18 years of age or older, demonstrating that the market has moved well beyond the average gamer being a young male.

Emerging monetisation models: the industry is shifting from the traditional retail sales of static boxed games, to new monetisation models which include generating revenues from in-game purchases of and digitally distributed dynamic content, advertising and ongoing upgrades which are downloadable and extend the lifetime value of the game. With new content continually produced by developers to support these models, games content now evolves considerably after its initial launch and has become richer / more complex overall. Games content is, therefore, predicted to grow at a faster rate than the overall market, whilst the need for localisation and testing support has extended well beyond the games' initial sale and towards a requirement for continuing operational support.

Global games market ($bn) – 2013/2017 estimate



[1] PwC Global Entertainment & Media Outlook 2013-2017.
[2] Gartner, Market Trends: Gaming Ecosystem goes mobile with new monetization models, 21 November 2012.

17%

of games spend is on wireless and online – expected to overtake console & PC games

47%

of all players are women

68%

of gamers are 18 years of age or older

37%

of consumers are forecasted to spend online by 2017

Trend towards outsourcing:
As localisation and testing has become more complex and resource-intensive, due to the proliferation of devices, audiences, distribution channels, monetisation models and the increased complexity of content, it has become less cost effective for publishers to have sufficient resources for in-house localisation and testing and they are turning to trusted external providers. Given the increased complexity of getting their products to market, publishers are focusing their resources on devising successful new business models whilst aiming to optimise their return on investment by ensuring content is delivered efficiently and successfully across a growing number of games platforms and geographical markets, underpinning a continued trend towards outsourcing technical services such as localisation and testing.

In addition to the long term market drivers outlined above, the console launch cycle is an important factor in the growth rate of software sales into the console based gaming market. Mainstream console releases generally come in generations, and the Nintendo Wii U was the first release of what the industry terms the eighth generation of home consoles. This was followed in November 2013 with the launch of the Microsoft Xbox One and the Sony PlayStation 4. Both consoles are selling well but are held back by lack of availability in certain territories. On 18 March 2014, Microsoft announced that Xbox One would be launched in a further 26 countries in September 2014.

Despite an international and blue chip client base, technical services for the games industry remains a highly fragmented market. The Directors believe the Group is one of very few international providers of the full range of localisation services – localisation, audio and testing – with a pure focus on the video games industry.

The majority of the Group's competitors in the video games localisation industry offer either:

(i) translation; or

(ii) translation and audio; or

(iii) testing (localisation and functional)

and often with limited geographical reach. As such they do not provide the complete outsourced integration of localisation and testing services that the Group is able to provide internationally. Babel Media which was acquired by Keywords in February 2014 is regarded by the Directors as the most comparable business in terms of spread of services offered and outright focus on the games industry. Beyond these services, the wider market for general video games technical services is even more fragmented, with no specialised provider offering a complete video games technical services solution.

Key market drivers

- **Proliferation of games platforms:** beyond console and PCs to online, social, mobile and cloud-based gaming
- **Opening new geographical markets:** high rates of growth in developing markets

- **Emerging monetisation models:** revenues from in-game purchases, digitally distributed dynamic content, advertising and ongoing upgrades which extend the lifetime value of the game
- **Growth rate:** games content is to grow at a faster rate than the overall market. Keywords is dependent on industry growth and not reliant on individual client success.

- **Live operations support:** Need for localisation and testing support extended well beyond the games' initial sale
- **Trend towards outsourcing:** increased complexity of getting content to market; multiple platforms, greater geographies and new monetisation models; developers focused on new business models and market strategies

Localisation needs to take account of cultural, age range, gender, linguistic, technical, political and legal differences of global consumers to attract and maintain players and quality of localisation is a critical factor

So it is less cost effective for publishers to sufficiently resource in-house localisation and testing

Case study: Game localisation
Pro Evolution Soccer

Games developed in source language multiply many times by platform, by language, service and over time…

Original language:
starts as single title in original language in this case, Japanese

Pro Evolution Soccer

"World Soccer Winning Eleven":
is a series of football video games developed and published by Konami. Every year, the game is released around late September and/or early October with two different titles: World Soccer: Winning Eleven in Japan, and Pro Evolution Soccer in other countries.

The Japanese version is a localized version that features local leagues. In 2007, the franchise began to use the name "Winning Eleven: Pro Evolution Soccer" for the American market, which was later changed to "Pro Evolution Soccer" in 2008, dropping the "Winning Eleven" moniker entirely for that region.

English

French

Italian

German

Mex Spanish

Spanish

Portuguese

Arabic

Greek

Korean

Swedish

Turkish

Russian

Brazilian

Chinese

Dutch

Languages

Target languages: translated and culturally adapted to target languages.

Platforms

Audio recording: in select target languages.

Release cycles

Tested: in all languages across all target platforms.

Chief Executive's review

2013 was a year in which we invested in the business in the expectation that the next generation console launches, in combination with games development for the installed console base as well as social and mobile platforms would underpin a substantial increase in activity levels during the financial year.

Overview

The unexpected scale back in the number of next generation launch territories, combined with delays to some earlier generation games releases due to the industry's focus on the two major console releases at the very end of the year, held margins back in 2013. However, we are now well positioned to take advantage of this investment; 2014 and 2015, are expected to be periods of significant activity for the games industry as it benefits more fully from the new generation of consoles in line with the growth in the installed base for these devices.

Overall, despite the uncertainty in the industry, we delivered strong revenue growth and have made considerable progress in line with our strategy to expand the Group's offering both organically and by acquisition.

2013 financial performance highlights

The Group's revenues increased by 14% to €16.39m (2012: €14.34m) during the period. This increase was primarily driven by our largest service line, Localisation Testing, which grew by 21% whilst Localisation Activities, grew marginally, by 2%, and Audio and Functional Testing, grew by 23.3% as outlined in more detail in the operational review.

Operating expenses includes one-time costs relating to the IPO of €1.12m (2012: €nil) and non-cash costs related to share option expenses of €0.07m (2012: €nil). Operating expenses excluding these two items increased by a total of €0.54m for the period to €3.25m (2012: €2.71m) arising from our investment in expansion and increased capacity. In particular, this reflected a €0.19m increase in operating costs in Montreal and Seattle as we expanded our Localisation and Testing capacity, and €0.28m incremental costs in the Company related to the new Board and the compliance costs of being a public company. The depreciation expense increased by €0.07m arising from the Group's continued modest investment in testing equipment.

Whilst prices for the Company's services have mostly remained unchanged during 2013, our investment in additional capacity ahead of anticipated higher levels of activity in the second half of 2013 as well as in start up costs in our Managed Services operation in Seattle led to Gross Profit Margins for the continuing businesses being held back to 34.6% (2012: 38.5%).

One-time costs of €1.40m (2012: nil) were incurred in the year, relating to expenses associated with the Group's IPO on 12 July 2013. €0.28m of this was capitalised against the share premium account, with the balance of €1.12m included in operating expenses.

The Group reported adjusted profit before tax (before IPO expenses, share option charges and foreign currency movements) for 2013 of €2.45m (2012: €2.85m). Statutory profit before tax for the period was €1.16m (2012: €2.74m).

The average tax rate on the profit before taxation (excluding losses before tax) in the period was 14.8% (2012: 13.1%). The increase is due to higher tax rates in the USA on the Group's Seattle operations.

The basic earnings per share, excluding the one-time costs of the IPO, were 5.28c (2012: 7.30c). Basic earnings per share from continuing operations were 2.14c.

Operational review

During the year, the Group continued to grow its market share and build on its strong reputation for quality of service and delivery, from secure facilities, as evidenced by an excellent client retention record and client wins, which include Blizzard Entertainment, Disney, King and Supercell.

Despite a more turbulent than expected year for the reasons described above, the company performed well in 2013, growing organically and delivering a 14% increase in revenues.

Localisation Testing operations, which accounted for 58% of Group revenue, grew by 21% to €9.47m (2012: €7.82m) primarily driven by the launch of the new generation of consoles from Sony and Microsoft as well as our newly created operation in Seattle. Important new client contributors to the division included Disney Interactive, Blizzard Entertainment and Pretty Simple Games. During the year, the Company also established a managed services operation for a major client in Seattle with the Company managing localisation testing operations on site at Microsoft.

During the year we tested the majority of Sony published launch titles for PS4 and all Microsoft published launch titles for Xbox One. Localisation (translation) activities, which accounted for 32.5% of Group revenue, increased revenues marginally, by 2%, to €5.32m (2012: €5.23m). Being less exposed to the console games market than our testing operations, the translation business derives the majority of its revenues from mobile, social and online games. It saw an increased volume in mobile games, which continues to grow strongly, offset by some softening in demand from certain clients in online and social games .King.com (Candy Crush Saga and other titles), Kixeye (Vega Conflict, Backyard Monsters and others), Supercell (Clash of Clans, Hay Day and other titles) all joined our stable of clients during the year.

Our Audio activities, which account for 8% of Group revenues, grew by 25% to €1.25m (2012: €0.99m). This had been a fledgling operation for Keywords and the acquisition of Liquid Violet, in January 2014, was a significant step in extending the scale and capability of this important activity. Voice recordings in video games lie at the richer end of the content spectrum and are anticipated to be a strong growth activity, given the capability of the new generation of consoles to handle larger content loads, combined with the expansion of broadband capacity and that smartphone devices and networks are becoming more capable of managing richer content.

Functional Testing remained a small contributor to Group revenue, accounting for 2% in 2013 but grew by 17% to €0.35m from €0.30m on the back of new client wins particularly for higher value platform compliance testing. The acquisition of Babel Media in February 2014, will significantly extend Keywords' functional testing capability, in which the Group was formerly underrepresented, thus improving the balance of the Group's portfolio of services in 2014.

Overall, the Group has significantly extended its range of services, depth of capability and market penetration whilst adding new geographies organically and through acquisitions, as outlined below.

Service line extensions

Keywords has extended its range of services to include offering multilingual customer support, meaning that Keywords is the first line of customer support to its clients' communities of gamers. This service leverages our 700 games and language specialised staff and our recruitment pipelines for similarly profiled individuals. As games transition through the production and launch phases to ongoing live operational support, Keywords teams of native language testers can follow the game into the market, thereby exploiting their deep knowledge of all aspects of the game to support players as they engage with the content.

We have also trialled, in 2013, and are actively promoting in 2014, a service to objectively advise clients on the adaptation of user interface and user experience (UI/UX) design when globalising their games; a new service created through the collaboration of our Tokyo and Montreal studios.

We intend to continue to extend our service lines in line with client and market demand both through acquisitions and by leveraging the Group's existing internal skill sets to develop additional services to take to market.

Geographic expansion

The Group has expanded geographically and now has nine studios in three continents providing full localisation services to local and global clients. This broad reach has enabled Keywords

Highlights

14%
Increase in Group revenues

95%
Revenues derived internationally

1.00p
Total dividend per share for the year

€15.3m
Net cash including net IPO proceeds of €10.2m

to extend its localisation services into more than 40 languages across 12 platforms to clients in over 15 countries.

Keywords' 9 studios are strategically located to provide services to key gaming clusters in locations such as Tokyo, Montreal, Seattle and London. In addition, our newly acquired studio in New Delhi, India (a subsidiary of Babel Media) represents an interesting opportunity for our Group to explore and further develop this location for the provision of low cost offshore outsourced activities including functional testing services as well as a base for central services to be provided to the Group such as accounting and payroll processing services. South America and China are growing markets for games and, as such, also represent attractive markets for the Group to grow into in time. We are, therefore, exploring options to establish in these territories in a prudent manner.

Acquisitions

Keywords acquired Liquid Violet and Babel Media in January and February 2014 respectively, as previously announced. Both acquisitions have performed in line with our expectations.

Our focus with Liquid Violet, which is subject to an earn out arrangement, is on integrating some back office functions whilst enabling the business to benefit from broader business development opportunities as part of Keywords, given its larger client base. Early signs of the ability of Keywords to cross sell Liquid Violet services to its existing client base are very encouraging.

We have already made good progress with the integration of Babel Media's operations into Keywords. In the early weeks since acquisition, initial restructuring has targeted indirect costs and we, have already achieved annualised savings of $1.0m.

We expect acquisition activity to be a feature of the business for the foreseeable future as the company takes advantage of its leadership position in the market and continues to consolidate carefully selected, earnings accretive businesses. As such, Keywords continues to review a number of acquisition opportunities which, in line with the Group's strategy would bring something new to the Group – geographic reach, new complementary services, deeper market penetration in particular market sectors and new technologies.

As we grow, we have continued to invest in the infrastructure to support the larger Group. We expanded our sales support, growing from one dedicated business development executive in 2013 to five individuals in the sales team today, two of which joined through the acquisition of Babel Media in February 2014. Investment in project management, workflow management and financial reporting continues as these tools are rolled out to support all operations in a centralised and consistent manner, facilitating strong management reporting and control. We also continue to invest in talent and our growth helps us to retain and attract talent, as candidates can see attractive opportunities for career progression throughout the Group.

Principal risks and uncertainties

Keywords is a relatively small Group, operating in a fragmented, evolving industry populated by a number of very large global game publishers as well as many quite small developers. Keywords has the objective of becoming the leading global supplier of localisation, testing, audio and other related services to the Industry. This background sets the scene on the type and number of risks which the company faces in pursuing this objective.

Highlights

2

Acquisitions:

3

New studios:
1. London
2. New Delhi
3. Montreal

500

Peak staff

2014

Are expected to be periods of significant activity

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

1. General business risks for any international company
2. Industry related risks
3. Those specific to the Keywords Group and its strategy

The principal risks facing the Company at the present time, as identified by the management and the Board, refer exclusively to categories 2 and 3; they are set out below:

A) External risks

Exposure to large customers:
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 61% 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 low operational gearing of the Company.

Confidence of the city and investors:
Keywords floated on AIM in July 2013 with an expressed set of objectives of growing the business organically and by acquisition. As a new company to the world of public markets, maintaining the confidence of investors in what the company is doing is crucial as is performing in accordance with expectations. 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.

Sudden business interruption:
Keywords is a global business and needs to minimise business interruptions and be able to continue servicing customers. This threat is largely external, for instance caused by an IT failure or a natural disaster in a key location, 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 redundancy and supported by a solid business continuity plan and comprehensive insurance, the effects of such disasters can be managed.

B) Internal risks

Security:
The Industry requires the highest standards of security within a Company offering services such as Keywords. 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.

Success of acquisitions:
Keywords has embarked on an acquisition strategy to reinforce its global growth. Managing such acquisitions successfully and embedding the Keywords culture will be a crucial ingredient of success. Failure to do so will have adverse consequences such as management distraction, disposal and reduced profit. Whilst middle management is relatively inexperienced in this regard, this is mitigated by the considerable experience within the top management and across the Board.

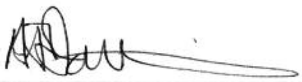
C) Financial risks

Adequate overseas financial controls:
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. The Group is investing in its financial reporting functions to facilitate strong reporting and management control.

Current trading and outlook
2014 is expected to be a year of significant activity for the games industry as it supports the fast growing new generation hardware and the existing 250m installed console base, as well as the significant growth being seen in smartphone gaming. We have made a solid start to the year, in line with management's expectations and our recently acquired businesses, Liquid Violet and Babel Media, are trading well with the change of ownership having been received well by clients of all of the businesses.

We have considerably strengthened our market position, geographical spread and service offering through a combination of market share gains, organic investment and recent acquisitions, leaving us well placed to take advantage of industry growth and structural change which we expect to lead to an increased use of outsourced services.

We, therefore, look forward to making good progress as we realise the benefits of increased scale, of improving utilisation across our business, of the acquisitions made following the year end and of our 2013 client wins.



Andrew Day
Chief Executive

7 April 2014

Financial and operating review

2013 was a year for transformation for the Group, where it listed on the AIM market and when the latest generation of games console were released by Sony (PS4) and Microsoft (Xbox One). It was unprecedented in the games industry for two major console releases to occur within weeks of each other. This resulted in significant turbulence in the games industry.

It is against this industry background that the Group continued to expand its geographic spread, with the opening of a new operation in Seattle, USA, and continued its growth.

Revenue

Revenue for 2013 at €16.4m was 14.3% higher than for 2012 (€14.34m). This was an encouraging growth rate, given the market conditions which prevailed in 2013.

Revenue mix

All lines of business increased in 2013, compared with 2012. Localisation Testing grew by 21% from €7.82m to €9.47m and contributed 58% of Group revenue (2012: 55%). This growth was driven by the next generation Console releases in 2013.

The Console releases had less of an impact on the Translation line of business, as a significant portion of this business is from social and mobile games. Translation revenue grew by 2% to €5.33m (2012:€5.23m). The Translation line of business contributed 33% of Group revenue (2012: 36%).

Audio grew by 25% to €1.25m (2012: €0.99m) and Functional Testing grew by 16% from €0.30m to €0.35m. Together these lines of business contributed 10% of Group revenue (2012: 9%).

Gross margin

Gross profit for the year was €5.66m (a 34.6% margin) against a gross profit for 2012 of €5.53m (a 38.5% margin).

Gross margins are subject to significant variation based on resource utilisation; effectively a measure of productive versus idle time. At the peak times of the year, during the summer, when there is little down time the levels of gross margins are significantly higher compared with the quieter months from December to March. This is particularly noticed in the Testing part of the business.

In 2012, the Group achieved higher than normal gross margins compared with previous years. In particular the Group undertook some large testing projects in the first quarter, outside the normal production release cycle for the games industry.

In 2013, the average utilisation rates across the Group were lower than 2012, resulting in the lower Gross margin achieved. Some of this was due to the significant first quarter margins achieved in 2012, and was anticipated, but as mentioned above the industry and the Group anticipated increased levels of activity and brought on additional testing capacity ahead of the anticipated launch of next generation games consoles in November 2013. The actual increased activity took place later in the year than anticipated and at lower than anticipated levels due to fewer launch territories, which resulted in the Group generating lower gross margins.

A further impact on gross margins came from the opening of the new operation in Seattle. In the early months of the year, operation testing resources were taken on and training and familiarisation resulted in idle time, estimated at €0.10m, which reduced the Group's gross margin by 0.6%.

Operating profit ("EBITDA")

EBITDA is a measure of operating profit used by the Board, which excludes depreciation, share option expenses and one-time costs related to the IPO. For 2013 EBITDA was €2.70m or 16.5% of revenue compared with €3.01m for 2012 (21% of revenue).

Operating expenses, excluding depreciation, increased by €0.45m from €2.51m to €2.97m following our investment in expansion and increased capacity. In particular, this reflected a €0.19m increase in operating costs in Montreal and Seattle as we expanded our Localisation and Testing capacity, and €0.28m incremental costs in the Company related to the new Board and the compliance costs of being a public company.

Net finance costs

During 2013 there was slight decrease in net finance expenses to €0.07m (2012: €0.08m). Foreign exchange losses on translation were improved slightly to €0.10m (2012: €0.11m) due to the weakening of the Canadian Dollar and the Japanese Yen against the Euro, offset by gains in Sterling against the Euro.

Adjusted profit before tax

Adjusted profit before tax is a measure of profitability of the business used by the Board to measure the more meaningful recurring profit generation of the Group. This measure excludes one-time expenses, such as the expenses of the IPO, and also share option expenses and foreign currency gains or losses. Adjusted profit before tax for 2013 is €2.45m or 15.0% of revenue compared with €2.85m for 2012, or 19.9% of revenue.

Taxation

The average tax rate on the profit before taxation (excluding losses before tax) in the period was 14.8% (2012: 13.1%). The increase in the average tax rate reflects profits being earned in higher taxed jurisdictions, including in the Group's new operations in Seattle where Washington State and US Federal Tax rates amount to 42% of profit earned.

Basic earnings per share

Basic earnings per share for the year, excluding the IPO expenses, is 5.28c compared with 7.30c for 2012. Basic earnings per share after significant one-time expenses arising from the IPO was 2.14c.

Cash flow and debt

The Group continues to operate without any financing debt. The Group generated operating cash of €2.28m for the year, compared with €1.90m for 2012. Investment in fixed assets amounted to €0.39m (2012: €0.39m) reflecting ongoing purchases of games testing equipment.

The issue of new shares in the IPO generated gross proceeds of €11.63m. Expenses related to the IPO amounted to €1.40m, of which €0.28 was capitalised against Share Premium.

Cash and cash equivalents increased from €3.89m to €15.27m.

Foreign exchange

Keywords does not hedge foreign currency profit and loss translation exposures and the Group's results therefore have been impacted by movements in exchange rates.

Dividend

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

Following its maiden interim dividend payment of 0.33p per share on 28 October 2013, the Board recommends a final dividend of 0.67p per share, which will make the total dividend for the year ending 31 December 2013 1.00p per share. Subject to shareholder approval at the Annual General meeting, the final dividend will be paid on 25 July 2014 to all shareholders on the register at 4 July 2014. The final proposed dividend will cost an estimated €0.34m.

In future years, the Board expects that the interim dividend will be around one third of the total dividend for the year.

Events after the reporting period

On 15 January 2014 the Company acquired the entire issued share capital of Liquid Violet Limited, a video games voice production services company, registered in the UK. Liquid Violet specialises in the management, on behalf of major video game publishers, of the pre production and post production stages of localised voice-over assets for incorporation in the finished games. Under the terms of the acquisition, which is immediately earnings enhancing, Keywords Studios has paid an initial cash consideration of £0.30m with a further £1.3m payable in cash contingent upon Liquid Violet achieving certain financial targets in the three years to 31 March 2016.

On 17 February 2014 the Company acquired the entire issued share capital of Babel Media Limited, a company registered in the UK, together with its subsidiary companies. Babel Media is a leading provider of outsourced video games services with operations in the UK, Canada and India. Under the terms of the acquisition, which is expected to be materially earnings enhancing in the first year, the Company has paid the sellers and settled the financing obligations of Babel to a total of £5.37m. This has been satisfied as to £2.22m by the issue of 1,516,944 new shares in Keywords Studios at a price of 145.994 pence per share (being the volume weighted average price over the preceding 5 trading days) and cash amounts to settle indebtedness to a total of £3.15m.

On 24 March 2014, the Directors incorporated Keywords International PTE. Limited, a company registered in Singapore, as part of the Group's continuing geographic expansion, and to allow it to service the games industry in South East Asia.

Key performance indicators

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

Financial performance is measured by:

– Organic revenue growth
Revenue growth is measured on a Studio by Studio basis (by line of business and overall) against the Board's strategic goal to grow organically.

– Gross profit
Gross profit is a key measure of the Groups' use of resources and its ability to maintain billable resource utilisation

– Overhead costs by location
The Board monitors the overheads to ensure the costs in each location are in line with the level of business being generated.

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

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

Non-financial performance is measured by:

– Resource utilisation rates
The Board reviews the utilisation rates achieved to ensure the Group is making the best use of resources, and to ensure sufficient resources, but not too much, are being deployed.

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

David O'Connor
Chief Financial Officer

7 April 2014

Directors' report: Board of Directors

Ross Graham (66)
Independent Non-Executive Director and Chairman

Ross Graham has extensive executive and non-executive experience in the technology sector. He worked from 1987 to 2003 at Misys plc, a global financial software product and solutions provider. He joined Misys as Finance Director upon its flotation, latterly becoming corporate development director, where he played a key role in developing and implementing its acquisition strategy. Ross also held a non-executive directorship at Psion plc from 2005 until 2012 when that company was successfully sold to Motorola Solutions Inc. During his time at Psion, he held various roles including the senior independent directorship and chairman of the audit and remuneration committees. He is currently a non-executive director at Wolfson Microelectronics Plc and was previously senior independent director and the audit committee chairman. Ross qualified as a chartered accountant with Arthur Young in 1969 and was made a partner of that firm in 1981. He is a Fellow of the Institute of Chartered Accountants of England & Wales. Ross was appointed Director and Chairman of Keywords prior to the flotation in July 2013.

Andrew Day (50)
Group Chief Executive Officer

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 at NYSE listed advanced analytics business, FICO before joining Keywords as its Chief Executive Officer in April 2009.

David O'Connor (42)
Group Finance Director

David is a chartered accountant who has extensive experience in senior management roles. He has recently held two positions as Financial Controller for international companies, including Deecal International Limited (latterly named First Data Commercial Services Limited). In his position as Financial Controller, David has had experience in creating corporate financial systems and procedures, leading internal teams and developing sales strategies. In 2012, David became a consultant for Baker Tilly Ryan Glennon, a firm of accountants and business advisors in Ireland, before being employed as Group Financial Controller for Keywords in July 2012.

David Reeves (67)
Independent Non-Executive Director

David has spent over 30 years in management roles within multinational companies. He began his career as an operational research consultant before moving overseas with RJ Reynolds Nabisco where he worked from 1979 to 1991, becoming the Marketing Director in 1986 and Worldwide Marketing Director in 1989. In 1991, David served as the General Manager and Vice President of Marketing in Tokyo for Mitsubishi Shoji JV Technology Company. David has considerable experience in the computer entertainment industry. David was the Managing Director for Sony Computer Entertainment (PlayStation) from 1995 until his appointment as its Executive Vice President in 1999 and President in 2003. Throughout his career, David has developed knowledge of the various working styles of European, American and Asian corporations. He was appointed to the Board of Keywords Studios Limited on 29 May 2013.

Giorgio Guastalla (45)
Non-Executive Director

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, 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.

Ross Graham

Andrew Day

David O'Connor

David Reeves

Giorgio Guastalla

Directors' report

The Directors present their first annual report together with the audited consolidated financial statements for the year ended 31 December 2013.

Disclaimer

The purpose of this Annual Report & Accounts is to provide information to the members of the Company. The Annual Report & Accounts 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 & Accounts 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 & Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report & Accounts should be construed as a profit forecast.

Results and dividends

The results for the year are set out on page 12. Dividends paid and proposed are set out on page 17. The Board is proposing a final dividend of 0.67p per share following the payment of an interim dividend of 0.33p per share on 28 October 2013. The proposed total dividend for the year is therefore 1p per share.

Directors and changes to the board

The Company was formed on 29 May 2013, when Andrew Day, David O'Connor, David Reeves and Giorgio Guastalla were appointed to the Board. Ross Graham was appointed to the Board on 8 July 2013. Details of members of the Board at 31 December 2013 are set out on page 18.

Going concern

In view of the Group's resources, cash at 31 December 2013 of €15.27m, free cash flow in 2013 of €1.95m, results of operations, excluding one-time costs related to the IPO, 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 page 23. 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.

The names of all persons who, at any time during the year, were Directors of the Company can be found on page 18 and above, under The Board and Changes to the Board.

Corporate governance

The Board

The Board is comprised of two Executive and three Non-Executive Directors. The Board considers that Ross Graham and David Reeves are independent in character and judgement and that there are no relationships or circumstances which are likely to affect their independent judgement.

The Board is responsible for the overall management of Keywords, our strategy and long-term objectives. It provides leadership to Keywords having regard to the interests of shareholders and other stakeholders.

Audit Committee

The Audit committee is chaired by David Reeves. Ross Graham is the other Committee member. The Audit Committee is responsible for assisting the Board in fulfilling its financial and risk responsibilities. The Audit Committee oversees our financial reporting, risk management and internal control procedures, and reviews the work of external audit.

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration of the Chairman, Executive Directors, the Company Secretary and senior executives of Keywords.

For further information please see pages 22 to 23.

Internal controls and risk management

The Board has overall responsibility for the Group's system of internal controls. The system is designed to manage, rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement or loss.

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 area 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
- A defined organisational structure with appropriate delegation of authority.

The Board also receives a report from the external auditor on matters identified in the course of the statutory audit.

Substantial shareholdings

At 30 December 2013, 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 Limited	11,978,736	29.9
Andrew Day	5,325,028	13.2
Schroder Investment Management	4,827,500	12.1
Artemis Investment Management	3,250,000	8.1
Liontrust Asset Management	2,845,087	7.1
Legal & General Investment Management	2,700,000	6.7
Investco Perpetual	2,281,302	5.7
Hargrave Hale	1,315,939	3.3

Future developments

Important events since the financial year end are described on page 4 of the Overview and future developments are described in the strategy section of the Strategic report on pages 14 & 15.

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 Group's clients.

The average headcount reached 371 for 2013 with peak employment of 511 in September 2013. Keywords permanent staff compliment averaged 110 during 2013. 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.

Corporate responsibility

Keywords seeks to be a socially responsible Group which has a positive impact on the communities it operates in. 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.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report & Accounts.

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 page 18, confirm that:

- So far as any 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 the 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 O'Connor
Company Secretary

7 April 2014

Directors' remuneration report

Dear fellow shareholder,

It is my pleasure to present the first Directors' remuneration report for the period ended 31 December 2013.

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 remuneration structure made up of base salary and benefits, a bonus plan and share option scheme, and a long-term incentive plan, which provide a clear link between pay and our key strategic priorities.

The Board of Directors

The Board of Directors has a duty to act in the best interests of their shareholders when determining remuneration. It has a responsibility to promote the long-term success of the company while also considering the employees, suppliers, customers and other external factors which may be impacted by remuneration decisions.

Executive Directors will be responsible for developing and implementing remuneration strategy for the Group. Non-Executive Directors will be responsible for constructively reviewing and contributing to this strategy. .

The Remuneration Committee

The members of the Remuneration Committee are Giorgio Guastalla (committee Chairman), David Reeves and Ross Graham. The members are all Non-Executive Directors.

The remit of the Committee is primarily to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executive Directors, and if required by the Board, the Senior Management of the Group.

Non-Executive Directors, who are the members of the remuneration committee, should oversee Executive remuneration. The remuneration of the Chairman of the Board is determined by the Remuneration Committee (excluding the Chairman himself). The remuneration of the Non-Executives is a matter for the Executive member of the Board in conjunction with the committee Chairman.

No Director or Senior Manager is involved in any discussion or decision about his own remuneration.

The Remuneration Committee consists of Non-Executive Directors all of whom are independent with no personal financial interest, other than as shareholders, in the decisions of the Committee. The remuneration committee secretary will be the company human resource manager. By invitation, other members of the Board may attend the Committee's meetings.

Meetings

The Remuneration Committee is planned to meet at least three times a year. In the period from the formation of the Group in July 2013 and the reporting date, the remuneration committee met on two occasions.

Directors' emoluments and pension contributions

The Company was incorporated on 29 May 2013. The aggregate remuneration for the Directors of the Company, for service in all capacities during the period since incorporation was €197,965 (2012: €nil). The remunerations of individual Directors were as follows.

	2013					2012				
	Salary or fees €	Bonus €	Pension €	Share Options €	Total €	Salary or fees €	Bonus €	Pension €	Share Options €	Total €
Andrew Day	62,500	–	–	9,005	71,505	–	–	–	–	–
David O'Connor	47,500	–	–	5,260	52,760	–	–	–	–	–
David Reeves	26,407	–	–	–	26,407	–	–	–	–	–
Giorgio Guastalla	24,070	–	–	–	24,070	–	–	–	–	–
Ross Graham	23,223	–	–	–	23,223	–	–	–	–	–
	183,700	–	–	14,265	197,965	–	–	–	–	–

Directors' interest in shares

The interests of each person who was a director of the Company as at 31 December 2013 (together with interests held by his or her connected persons) were:

	2013 Number	2012 Number
Giorgio Guastalla [(1)]	10,780,862	–
Andrew Day	5,296,573	–
David Reeves	16,260	–
David O'Connor	12,195	–
Ross Graham	–	–
	16,105,890	–

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

The outstanding awards granted to each director of the Company are as follows.

Long Term Investment Plan

	Start of year number	Awarded number	Vested number	Lapsed number	End of year number	Vesting date
Andrew Day	–	86,593	–	–	86,593	12 July 2016
David O'Connor	–	65,811	–	–	65,811	12 July 2016
		152,404			152,404	

Share Option Plan

	Start of year number	Awarded number	Vested number	Lapsed number	End of year number	Vesting date
Andrew Day	–	21,167	–	–	21,167	12 July 2015
	–	21,167	–	–	21,167	12 July 2016
	–	21,168	–	–	21,168	12 July 2017
		63,502			63,502	
David O'Connor	–	4,490	–	–	4,490	12 July 2015
	–	4,490	–	–	4,490	12 July 2016
	–	4,490	–	–	4,490	12 July 2017
		13,470			13,470	
		76,972			76,972	

Awards of shares will vest on the dates shown. In the event that a director ceases to be an employee of the Group for reasons other than death, retirement, redundancy, injury, ill-health or disability before the vesting date, then the rights to the award will lapse, unless the Remuneration Committee recommend otherwise.

Awards are not subject to further performance conditions once granted.

Transactions with Directors

During the year, there were no material transactions between the Company and the Directors, other than their emoluments.

All transactions between the Group and the Directors are set out in the notes to the financial statements, including Note 22 on related party transactions.

Giorgio Guastalla
Chairman of the Remuneration Committee

7 April 2014

Directors' remuneration policy report

The Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out below, where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee determines the Company's policy on Executive Directors' and if required, senior management remuneration. The objectives of this policy are:

- To reward Executive Directors and senior management in a manner that ensures that they are properly incentivised and motivated to perform in the best interests of shareholders.
- To provide a level of remuneration required to attract and retain high calibre executive directors and senior management.
- To encourage value creation through consistent and transparent alignment with the agreed company strategy.
- The Remuneration Committee takes into account the performance of the individual, comparisons with peer company companies and reports from external independent consultants. The experience of the individual and his/ her level of responsibility are also taken into account.
- Ensuring the total remuneration packages awarded to Executive Directors comprise of both performance-related and non-performance-related remuneration, designed to motivate the individual, align interests with shareholders and comply with corporate governance best practice.
- To ensure that any remuneration awarded is deserved and is aligned to the shareholders' interests.

Remuneration components

Various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's position in the company and professional activity as well as market practice.

The remuneration components are comprised of the following elements:

- Fixed remuneration (basic salary)
- Performance-based remuneration (variable salary)
- Pension schemes
- Other benefits
- LTIP (long-term incentive plan)

For Non-Executive Directors there is only one component, a base fee.

Basic salaries and benefits

Basic salaries should initially be determined to reflect first the role and the responsibility of the individual within that role while also upholding the principle of paying no more than is necessary.

The basic salaries of Executive Directors and senior management are reviewed annually having regard to personal performance, company performance, significant changes in their responsibilities and competitive market practice.

Any increases in basic salary should be disclosed and justified.

Performance bonus
Under current arrangements, which will be reviewed annually by the Remuneration Committee, Executive Directors and senior management are eligible to participate in a bonus scheme. The bonus amount is a percentage of salary ranging from 20% to 50%, which is subject to the attainment of specific targets set for each individual. 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 weighted 80 per cent towards the Company's financial performance and 20 per cent towards personal performance. The Remuneration Committee will review targets and the weighting of performance measures each year.

The bonus may not exceed the agreed percentage of the fixed salary, which level can only be achieved at a weighted target achievement of 100 per cent. Furthermore, the bonus will be cancelled at a weighted target achievement of less than 80 per cent.

Pension entitlements
The company does not operate any pension scheme or make pension provision for Non-Executive Directors. At the discretion of the remuneration committee the Executive Directors and senior management may participate in a pension scheme facilitated by the Company.

Benefits
During the period since incorporation, the Company did not contribute to any Employment related benefits.

Share options
Share option programmes are in place for permanent members of staff, including the Senior Management. The focus of the share option programmes is to retain and create long-term shareholder value. The intention of such grants is to ensure value creation and fulfilment of the company's long-term goals.

Long Term Incentive Plan (LTIP)
The purpose of the LTIP is to incentivise delivery against total shareholder return. Share awards further the alignment of executives' and shareholders' interests.

LTIP grants can be made annually to a range of senior employees across the company. Awards are made in the form of share options which vest subject to performance conditions. Performance conditions are measured over three financial years and are not retested. Conditions are reviewed annually.

Leaver treatment
Fair treatment will be extended to departing executives. 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 LTIP shares.

At the Committee's discretion good leavers (normally including such circumstances as retirement, death, disability, and redundancy) may be eligible for an annual bonus for the proportion of the bonus year served. However performance will be tested in line with the normal performance schedule.

Independent Auditor's report

To the Members of Keywords Studios PLC

We have audited the financial statements of Keywords Studios plc for the year ended 31 December 2013 which comprise the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation 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.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3, 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 audit work, for this report or for opinions we have formed.

Respective responsibilities of Directors and Auditor

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and Company and of the profit or loss of the Group and Company 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 accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the 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 enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website 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 company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2013 and of the Group's and the Parent Company's profit for the period 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Teresa Morahan (Senior statutory auditor)
for and on behalf of BDO, Statutory Auditor
Mercer Street Lower
Dublin 2
Ireland

7 April 2014

Consolidated statement of comprehensive income

	Note	Years ended 31 December 2013 €	2012 €
Revenues	4	16,386,991	14,342,949
Operating costs		(10,721,956)	(8,817,284)
Gross profit		5,665,035	5,525,665
Costs of Initial Public Offering		(1,123,566)	–
Share option expense		(70,755)	–
Other administration expenses		(3,246,276)	(2,710,903
Administrative expenses		(4,440,597)	(2,710,903)
Operating profit	5	1,224,438	2,814,762
Financing income	6	59,335	50,470
Financing cost	6	(125,710)	(126,542)
Profit before taxation		1,158,063	2,738,690
Tax expense	7	(393,720)	(410,597)
Profit for the year		764,343	2,328,093
Other comprehensive income:			
Exchange gains / (losses) on translation of foreign operations		84,591	(86,726)
Total comprehensive income for the year attributable to the owners of the parent		848,934	2,241,367

Earnings per share	Note	Euro cent	Euro cent
Basic earnings per Ordinary share (Euro cent)	9	2.14	7.30
Diluted earnings per Ordinary share (Euro cent)	9	2.12	7.30

The notes on pages 35 to 54 form an integral part of these consolidated financial statements.

On behalf of the Board

Andrew Day
Director

David O'Connor
Director

7 April 2014

Consolidated statement of financial position

	Note	2013 €	2012 €
		Years ended 31 December	
Non-current assets			
Property, plant and equipment	12	600,415	490,404
		600,415	490,404
Current assets			
Trade receivables	13	1,303,462	1,397,248
Other receivables	14	1,125,451	907,302
Cash and cash equivalents	15	15,270,569	3,892,089
Short term investments	16	518,506	505,585
		18,217,988	6,702,224
Total assets		18,818,403	7,192,628
Equity			
Share capital	17	464,782	188
Share premium		11,249,637	–
Merger Reserve		(370,069)	–
Foreign Exchange Reserve		22,854	(61,737)
Share Option Reserve	18	70,755	–
Retained earnings		6,055,588	6,072,372
Total equity		17,493,547	6,010,823
Current liabilities			
Trade payables	19	503,634	701,197
Other payables	20	816,595	480,608
Corporation Tax liabilities		4,627	–
		1,324,856	1,181,805
Total equity and liabilities		18,818,403	7,192,628

The notes on pages 35 to 54 form an integral part of these consolidated financial statements. The financial statements were approved and authorised for issue by the Board on 7 April 2014.

On behalf of the Board

Andrew Day
Director

David O'Connor
Director

7 April 2014

Consolidated statement of changes in equity

	Share capital €	Share premium €	Merger reserve €	Foreign Exchange reserve €	Share option reserve €	Retained earnings €	Total equity €
Balance at 1 January 2012	188	–	–	24,989	–	4,119,761	4,144,938
Total comprehensive income for the year	–	–	–	(86,726)	–	2,328,093	2,241,367
Dividends paid (Note 10)	–	–	–	–	–	(375,482)	(375,482)
Balance at 31 December 2012	188	–	–	(61,737)	–	6,072,372	6,010,823
Total comprehensive income for the year	–	–	–	84,591	–	764,343	848,934
Share option expense (Note 18)	–	–	–	–	70,755	–	70,755
Dividends paid (Note 10)	–	–	–	–	–	(781,127)	(781,127)
Shares Issued (Note 17)	464,594	11,530,689	–	–	–	–	11,995,283
Share issuance cost capitalised	–	(281,052)	–	–	–	–	(281,052)
Merger Reserve arising on Group reconstruction (Note 17)	–	–	(370,069)	–	–	–	(370,069)
Balance at 31 December 2013	464,782	11,249,637	(370,069)	22,854	70,755	6,055,588	17,493,547

Consolidated statement of cash flows

	Note	Years ended 31 December 2013 €	2012 €
Cash flows from operating activities			
Profit after tax		764,343	2,328,093
Income and expenses not affecting operating cash flows			
Depreciation	12	272,470	198,267
Foreign currency revaluation of fixed assets	12	11,209	–
Share option expense	18	70,755	–
Interest received	6	(59,335)	(50,470)
Share issuance cost		1,123,566	–
Income tax expense	7	393,720	410,597
Income taxes paid		(359,104)	(748,546)
Changes in operating assets and liabilities			
Decrease/(increase) in trade receivables		93,786	(155,810)
Increase in other receivables		(248,138)	(172,307)
Increase in trade and other payables		138,424	127,811
Increase / (decrease) in foreign exchange reserve		84,591	(86,726)
Net cash provided by operating activities		2,286,287	1,850,909
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(393,690)	(390,855)
Acquisition of short term investments	16	(12,921)	(505,585)
Interest received	6	59,335	50,470
Net cash used in investing activities		(347,326)	(845,970)
Cash flows from financing activities			
Dividends paid	10	(781,127)	(375,482)
Issue of share capital	17	11,625,214	–
Share issuance expenses	5	(1,404,618)	–
Net cash provided by / (used in) financing activities		9,439,469	(375,482)
Increase in cash and cash equivalents		11,378,480	629,457
Cash and cash equivalents at beginning of year		3,892,089	3,262,632
Cash and cash equivalents at end of year	15	15,270,569	3,892,089

Company statement of financial position

	Note	Years ended 31 December 2013 €	2012 €
Non-current assets:			
Investment in Subsidiaries	21	5,735,481	–
		5,735,481	–
Current assets:			
Other receivables	14	1,898,008	–
Cash and cash equivalents	15	10,722,542	–
		12,620,550	–
Total assets		18,356,031	–
Equity:			
Share capital	17	464,782	–
Share premium		11,249,637	–
Merger reserve		5,312,892	
Share option reserve	18	70,755	–
Retained earnings		897,418	–
Total equity		17,995,484	–
Current liabilities			
Corporation tax liabilities		22,650	–
Other payables	20	337,897	–
		360,547	–
Total equity and liabilities		18,356,031	–

The notes on pages 35 to 54 form an integral part of these consolidated financial statements. The financial statements were approved and authorised for issue by the Board on 7 April 2014.

On Behalf of the Board

Andrew Day
Director

David O'Connor
Director

7 April 2014

Company statement of changes in equity

	Share capital €	Share premium €	Merger reserve €	Share option reserve €	Retained earnings €	Total equity €
Balance at 1 January 2012	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–
Dividends paid (Note 10)	–	–	–	–	–	–
Balance at 31 December 2012	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	1,054,027	1,054,027
Share option expense (Note 18)	–	–	–	70,755	–	70,755
Dividends paid (Note 10)	–	–	–	–	(156,609)	(156,609)
Shares issued (Note 17)	464,782	11,530,689	–	–	–	11,995,471
Share issue costs capitalised	–	(281,052)	–	–	–	(281,052)
Merger reserve arising on Group reconstruction (Note 17)	–	–	5,312,892	–	–	5,312,892
Balance at 31 December 2013	**464,782**	**11,249,637**	**5,312,892**	**70,755**	**897,418**	**17,995,484**

Company statement of cash flows

	Note	Years ended 31 December 2013 €	2012 €
Cash flows from operating activities			
Profit after tax		1,054,027	–
Income and expenses not affecting operating cash flows			
Share option expense		18,423	–
Share Issuance expense		1,123,566	–
Interest receivable		(14,175)	
Income tax expense		22,650	–
Changes in operating assets and liabilities			
Increase in other receivables		(1,898,008)	–
Increase in trade and other payables		337,897	–
Income taxes paid		–	–
Net cash provided by operating activities		643,380	–
Cash flows from investing activities			
Interest received	6	14,175	–
Net cash provided by investing activities		14,175	–
Cash flows from financing activities			
Dividends paid	10	(156,609)	–
Issue of share capital	17	11,625,214	–
Share issuance expense	5	(1,404,618)	
Net cash provided by financing activities		10,063,987	–
Increase in cash and cash equivalents		10,722,542	–
Cash and cash equivalents at beginning of year		–	–
Cash and cash equivalents at end of year	15	10,722,542	–

Notes forming part of the consolidated financial statements

1 Basis of preparation

Keywords Studios plc (the "Company" is a company incorporated in the UK. These consolidated financial statements include the financial statements of the Company and its subsidiaries (the "Group") made up to 31 December 2013. 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 about its Group.

The consolidated and Company financial statements has 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").

In the current year the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as they have been adopted by the European Union, that are relevant to its operations and effective for accounting periods beginning on 1 January 2013. The adoption of these standards has had no material impact on the financial statements.

New standards, interpretations and amendments not yet effective

None of the new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2014 and which have not been adopted early, are expected to have a material effect on the Group's future financial statements.

2 Significant accounting policies

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. Intercompany transactions and balances between Group companies are therefore eliminated in full.

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

Keywords Studios Limited was incorporated on 29 May 2013. Accordingly, although the units which comprise the Group did not form a legal group for the entire year, the current year comprises the results and balances of the subsidiary companies and the Company as if the Group had been in existence throughout the entire period and comparative results and balances comprise the consolidated results and balances of Keywords International Limited.

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

Business combinations

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

Foreign currency

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

2 Significant accounting policies continued

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 are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

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

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

Revenue recognition

Revenue is recognised, net of sales taxes, when the service is rendered. When projects are in progress at the period end, revenue is recognised to the extent that services have been provided.

Share based payments

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

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

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

Share option plan

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

LTIP

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

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

2 Significant accounting policies continued

Dividend distribution

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

Income taxes and deferred taxation

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

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

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

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

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

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

Property, plant and equipment

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

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.

Goodwill

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment

Non-financial assets are subject to annual 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.

2 Significant accounting policies continued

Where it is not possible to establish the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. – the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income.

Financial assets

Loans and receivables

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

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

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

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months. Where cash is on deposit with maturity dates greater than three months, it is disclosed as short-term bank deposits.

Share capital

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

Financial liabilities

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

Leased assets

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

3 Critical accounting estimates and judgements

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

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

Accrued income

Judgement is required in respect of the amount of accrued income recognised at the reporting date. The amount of accrued income is determined based on an assessment of the expected amount of unbilled time costs in respect of work commenced prior to the close of a particular year end that will be invoiced to customers after that year end date.

3 Critical accounting estimates and judgements continued

Income taxes

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

4 Segmental analysis

Management considers that the Group's activity as a single source supplier of Localisation and Localisation Testing Services 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 four main service groupings:

- Localisation – Localisation Services relate to translation and cultural adaptation of in-game text and audio scripts across multiple game platforms and genres.
- Localisation Testing – Localisation Testing involves testing the linguistic correctness and cultural acceptability of computer games.
- Audio – Audio Services relate to the audio production process for computer games and includes script translation, actor selection and talent management through pre-production, audio direction, recording, and post-production, including native language Quality Assurance of the recordings.
- Functional Testing – Functional Testing relates to quality assurance services provided to game producers to ensure games function as required.

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

Revenue by line of business

	Years ended 31 December	
	2013 €	2012 €
Localisation testing	9,465,989	7,820,445
Localisation	5,324,995	5,229,733
Audio	1,246,669	993,581
Functional testing	349,338	299,190
	16,386,991	14,342,949

Included in Localisation Testing is €152,260 (2012: €nil) of revenue related to multimedia tax credits.

Two (2012: Three) customers accounted for more than 10% of the Group's revenue during the year. Revenues generated from those customers were €3.4m and €2.9m (2012: €3.3m, €2.4m and €1.9m).

4 Segmental analysis continued

Geographical analysis of revenues by jurisdiction

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

	Years ended 31 December	
	2013 €	2012 €
Ireland	10,904,474	10,882,112
Japan	1,208,392	2,412,747
Italy	345,884	662,764
Canada	1,128,720	385,326
United States	2,799,521	–
Total revenues	16,386,991	14,342,949

Geographical analysis of non-current assets from continuing businesses

	Years ended 31 December	
	2013 €	2012 €
Ireland	452,958	357,277
Canada	106,360	84,101
Japan	11,602	23,575
Italy	28,939	24,837
United States	556	614
	600,415	490,404

5 Operating profit

Operating profit is stated after charging:

	Years ended 31 December	
	2013 €	2012 €
Depreciation	272,470	198,267
Costs of Initial Public Offering	1,123,566	–

One-time costs of €1,404,618 (2012: €nil) were incurred as in the Company's IPO. €281,052 (2012: €nil) of these costs were capitalised against the share premium account.

	Years ended 31 December	
	2013 €	2012 €
Auditors' remuneration		
Audit services		
– Parent company and Group audit	38,000	20,000
– Subsidiary companies audit	20,000	–
Non-audit services		
– Accounting and Taxation compliance	14,962	2,500
– Corporate finance fees related to IPO	205,101	–
	278,063	22,500

6 Financing income and costs

	Years ended 31 December 2013 €	2012 €
Finance income		
Interest received	59,335	50,470
	59,335	50,470
Finance cost		
Bank charges	(24,703)	(13,578)
Foreign exchange losses	(101,007)	(112,964)
	(125,710)	(126,542)
Net financing (expense)/income	(66,375)	(76,072)

7 Taxation

	Years ended 31 December 2013 €	2012 €
Current income tax		
Income tax on profits	22,650	–
Income tax on profits of subsidiary operations	371,070	383,796
Previous year taxes	–	26,801
	393,720	410,597

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

	Years ended 31 December 2013 €	2012 €
Profit before tax	1,158,063	2,738,690
Expected tax charge based on the standard rate of taxation in the UK at 23% (2012: 23%)	266,354	629,899
Higher rates of current income tax in overseas jurisdictions	20,702	18,403
Lower rates of current income tax in overseas jurisdictions	(234,220)	(308,288)
Losses incurred in overseas jurisdictions	148,755	90,183
Used of tax losses carried forward	–	(19,600)
Permanent differences on non-deductible IPO expenses	258,420	–
Effects of other timing differences	(66,291)	–
Total tax charge	393,720	410,597

The Group's subsidiaries are located in different jurisdictions and are taxed on their residual profit in those jurisdictions. The majority of profits arise in Ireland.

Deferred tax is not material to the Group, and no deferred tax asset or liability is recorded.

8 Profit attributable to shareholders of the Parent Company

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 profit after tax dealt with in the parent undertaking is €1,054,027 (2012: €nil).

9 Earnings per share

	Years ended 31 December 2013 Euro cent	2012 Euro cent
Basic	2.14	7.30
Diluted	2.12	7.30

	2013 €	2012 €
Profit for the period from continuing operations	764,343	2,328,093

	Number	Number
Denominator (weighted average number of equity shares)		
Basic	35,778,042	31,902,332
Diluted	36,062,393	31,902,332

10 Dividends

	2013		2012	
	Per share Euro cent	Total €	Per share Euro cent	Total €
Interim	842.00	124,518	2,538.00	375,482
Final	3,379.00	500,000	–	–
Interim	0.39	156,609	–	–
Dividends paid to shareholders	4,221.39	781,127	2,538.00	375,482

In November 2012, Keywords International Limited distributed €25.38 per share, based on the shares in issue at that time, or, €375,482 in total, as an interim dividend for 2011.

In May 2013, Keywords International Limited distributed €8.42 per share, based on the shares in issue at that time, or €124,518 in total, as a special dividend for 2011.

In June 2013, Keywords International Limited distributed €33.79 per share, based on the shares in issue at that time, or €500,000 in total, as a final dividend for 2012.

In October 2013 Keywords Studios plc distributed its maiden dividend of Stg0.33p / €0.39c per share, based on the shares in issue at that time, or €156,609, as an interim dividend for 2013.

The Directors' recommend a final dividend in respect of the financial year ended 31 December 2013 of Stg0.67p per Ordinary share, to be paid on 25 July 2014 to shareholders who are on the register at 4 July 2014. This dividend is not reflected in these financial statements as it does not represent a liability at 31 December 2013. The final proposed dividend will reduce shareholders' funds by an estimated €337,554.

11 Staff costs

Total staff costs (including Directors) comprise the following:

	Years ended 31 December 2013 €	2012 €
Salaries and related costs	8,704,709	6,129,835
Share based payment costs	70,775	–
	8,775,464	6,129,835

Key management compensation:

	Years ended 31 December 2013 €	2012 €
Salaries and related costs	394,800	321,300
Social Welfare cost	17,724	–
Pension costs	54,800	114,909
Share based payment costs	24,582	–
	491,906	436,209

The key management compensation includes the five Directors of Keywords Studios plc (2012: four Directors of Keywords International Limited).

The breakdown of Directors' remuneration for the Company is included in the Directors' Remuneration report on pages 22 and 23.

	Years ended 31 December 2013	2012
Average number of employees		
Operations	350	201
General and administration	21	16
	371	217

12 Property, plant and equipment

Group	Computers and software €	Office, furniture and equipment €	Total €
Cost			
At 1 January 2012	563,825	110,110	673,935
Additions	385,863	4,992	390,855
At 31 December 2012	949,688	115,102	1,064,790
Currency revaluation	(15,283)	(5,196)	(20,479)
Transfer	(39,455)	39,455	–
Additions	314,481	79,209	393,690
At 31 December 2013	1,209,431	228,570	1,438,001

12 Property, plant and equipment continued

	Computers and software €	Office, furniture and equipment €	Total €
Accumulated depreciation			
At 1 January 2012	330,409	45,710	376,119
Charge	187,344	10,923	198,267
At 31 December 2012	517,753	56,633	574,386
Currency Revaluation	(6,796)	(2,474)	(9,270)
Transfer	(11,738)	11,738	–
Charge	248,546	23,924	272,470
At 31 December 2013	**747,765**	**89,821**	**837,586**
Net book value			
As at 31 December 2012	431,935	58,469	490,404
As at 31 December 2013	**461,666**	**138,749**	**600,415**

13 Trade receivables

	Years ended 31 December	
Group	2013 €	2012 €
Customers	1,384,750	1,463,056
Provision for bad debts (Note 23)	(81,288)	(65,808)
	1,303,462	1,397,248

14 Other receivables

	As of 31 December	
Group	2013 €	2012 €
Accrued Income	209,743	231,997
Prepayments	215,364	231,965
Other receivables	295,427	158,750
Other tax and social security	104,721	7,580
Restricted cash (Note 22)	300,196	–
Related party receivable (Note 22)	–	247,021
Corporation tax receivable	–	29,989
	1,125,451	907,302

	As of 31 December	
Company	2013 €	2012 €
Intercompany receivables (Note 22)	1,483,464	–
Restricted cash (Note 22)	300,196	–
Prepayments	31,139	–
Other receivables	8,340	–
Other tax and social security	74,869	–
	1,898,008	–

15 Cash and cash equivalents

Group	As of 31 December 2013 €	2012 €
Cash at bank	2,121,135	1,235,561
Short term bank deposits	13,149,434	2,656,528
	15,270,569	3,892,089
Company		
Cash at bank	522,760	–
Short term bank deposits	10,199,782	–
	10,752,542	–

Short term bank deposits relate to cash on deposit with maturity dates less than three months, or which can be accessed before on demand.

16 Short term investments

Group	As of 31 December 2013 €	2012 €
Medium term bank deposits	518,506	505,585
	518,506	505,585

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

17 Shareholder's equity

Share capital

	2013		2012	
	Shares no.	€	Shares no.	€
At the start of the period				
Ordinary Shares of €0.012697 each	14,797	188	14,797	188
Issued during the period				
Ordinary Shares of Stg £0.01 each issued on incorporation	1,000	12	–	–
Ordinary Shares of Stg £0.01 each issued on reconstruction	31,901,332	370,257	–	–
Ordinary Shares of €0.012697 each eliminated on reconstruction	(14,797)	(188)	–	–
Ordinary Shares of Stg £0.01 each issued on flotation	8,130,081	94,513		
At the end of the period	40,032,413	464,782	14,797	188

On 29 May 2013 the Group issued 1,000 Ordinary shares of 1p each on incorporation, at nominal value.

On 8 July 2013, as part of the Group reconstruction, the Group issued a further 31,901,332 Ordinary shares of 1p each, as part of a share for share exchange with the shareholders of Keywords International Limited.

The comparative period shows the issued shares of Keywords International Limited prior to the Group's reconstruction on 8 July 2013.

17 Shareholder's equity continued

On 10 July 2013, Keywords Studios issued 8,130,081 new shares of 1p each for £1.23 per share, raising £10m / €11.625m in gross cash for the Group. Keywords Studios plc was admitted to the Alternative Investment Market (AIM) of the London Stock Exchange. Share trading commenced on 12 July 2013.

Reserves

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

Reserve	Description and purpose
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income
Foreign exchange reserve	Gains or losses arising on retranslation of the net assets of the overseas operations into euro.
Share premium	The Share Premium account is the amount received for shares issued in excess of their nominal value, net of share issuance costs
Share option reserve	The Share option reserve is the credit arising on share based payment charges in relation to the Company's share option schemes.
Merger reserve	The merger reserve was created following the Group reconstruction, when Keywords Studios plc acquired the Keywords International Limited group of companies.

18 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:

	2013 €	2012 €
Share Option Scheme expense	43,079	–
Share Option Scheme – LTIP expense	27,676	–
	70,755	–

Of the total share option charge, €24,582 relates to Directors of the Company as at 31 December 2013.

Share option scheme

Share options are granted to Directors and to permanent employees. The exercise price of the granted options is equal to management's 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:

	2013		2012	
	Average exercise price in £ per share	Number of options	Average exercise price in £ per share	Number of options
Outstanding at the beginning of the year	–	–	–	–
Granted	1.20	762,775	–	–
Lapsed	–	–	–	–
Exercised	–	–	–	–
Outstanding at the end of the year	1.20	762,775	–	–
Exercisable at the end of the year	–	–	–	–

18 Share options continued

Details of the options granted during the year are as follows:

All 762,775 options were granted on 12 July 2013 at an average exercise price of £1.20. All options were granted to either employees or Directors of the Group. Of the total options granted, 254,258 are exercisable from 12 July 2015 to 11 July 2020, 254,258 are exercisable from 12 July 2016 to 11 July 2020 and 254,259 are exercisable from 12 July 2017 to 11 July 2020.

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

	2013	2012
Weighted average share price (£)	1.23	–
Weighted average exercise price (£)	1.20	–
Average expected life	3 years	–
Expected volatility	36.12%	–
Risk free rates	0.5%	–
Average expected dividends yield	1.00%	–

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

The weighted average remaining contractual life of the options outstanding at 31 December 2013 was 2 years 6 months (2012: nil). All of the outstanding options can be exercised at an average of £1.20 over a 3 to 5 year period.

Long term incentive plan scheme

An alternative share plan was introduced to give awards to Directors and staff subject to outperforming the Numis Small Cap (excluding Investment Trusts) index in terms of shareholder return over a three year period. A total of 392,037 nil price (1p) options are available to vest to Directors and to selected employees on the basis of the number of options they are entitled to.

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

	2013		2012	
	Average exercise price in £ per share	Number of options	Average exercise price in £ per share	Number of options
Outstanding at the beginning of the year	–	–	–	–
Granted	0.01	392,037	–	–
Lapsed	–	–	–	–
Exercised	–	–	–	–
Outstanding at the end of the year	0.01	392,037	–	–
Exercisable at the end of the year	–	–	–	–

Details of the options granted during the year are as follows:

All 392,037 options were granted on 12 July 2013 at an exercise price of £0.01. All options were granted to either employees or Directors of the Group. Of the total options granted, 392,037 are exercisable from 12 July 2016 to 11 July 2020 if the market performance conditions are met as at 12 July 2016.

18 Share options continued

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

	2013	2012
Weighted average share price (£)	1.23	–
Weighted average exercise price (£)	0.01	–
Average expected life	3 years	–
Expected volatility	36.12%	–
Risk free rates	0.5%	–

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

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

The weighted average remaining contractual life of the options outstanding at 31 December 2013 was 2 years 6 months (2012: nil). All of the outstanding options can be exercised at £0.01 over a 4 year period.

19 Trade payables

	As of 31 December	
Group	2013 €	2012 €
Suppliers	503,634	701,197
	503,634	701,197

20 Other payables

	As of 31 December	
Group	2013 €	2012 €
Accrued expenses	277,179	346,952
Payroll taxes	137,461	118,711
Other payables	392,713	14,945
Related party payable (Note 22)	9,242	–
	816,595	480,608
Company		
Accrued expenses	21,503	–
Payroll taxes	16,133	–
Other payables	300,261	–
	337,897	–

21 Investments in Subsidiaries

Company	As of 31 December 2013 €	2012 €
Investment in Subsidiaries	5,683,149	–
Share Option Expense related to Subsidiary Companies	52,332	–
	5,735,481	–

The investment in subsidiaries reflects the net book value of the assets held by Keywords International Limited at the date of the share for share exchange, in accordance with IAS 27, Consolidated and Separate Financial Statements.

Details of the Company and Group's subsidiaries as at 31 December 2013 are set out below:

Name	Country of incorporation	Date of Incorporation/ acquisition	Proportion of voting rights and ordinary share capital held	Nature of business
Keywords International Limited	Ireland	13-05-1998	100%	Trading Company
Keywords International Co. Limited	Japan	30-11-2010	99%	Trading Company
Keywords International Corporation Inc.	Canada	22-12-2010	100%	Trading Company
Keywords Italia Srl.	Italy	18-05-2011	100%	Trading Company
Keywords International Inc.	United States	26-09-2012	100%	Trading Company
KW Studios Limited	United Kingdom	29-05-2013	100%	Dormant Company

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 30 December 2013, P.E.Q Holdings Limited owned 29.9% 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. Moreover, Italicatessen is a related party debtor as at 31 December 2012 because of an outstanding loan from Keywords International Limited of €238,100 and reimbursable charges paid by Keywords International Limited on behalf of Italicatessen Limited. There is no interest payable on this loan. The loan was repaid during the year.

	As of 31 December 2013 €	2012 €
Operating expenses		
Canteen charges	67,028	50,313

The following are year-end balances:

	As of 31 December 2013 €	2012 €
Italicatessen Limited	–	247,021
Total related party debtors	–	247,021
Italicatessen Limited	9,242	–
Total related party creditors	9,242	–

22 Related parties and shareholders continued

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

	2013 €	2012 €
Operating expenses		
Rental payment	18,000	18,000

The Company entered into a deed of undertaking and indemnity on 8 July 2013 with Mr. Andrew Day, CEO and Director of the Company related to possible liabilities which might arise due to the restructuring of the Group prior to its IPO on 12 July 2013. As part of this deed of undertaking and indemnity, Mr. Day deposited £250,000 as security for the Company. This is included as Restricted Cash in Other Receivables of the Company. This amount is repayable to Mr. Day on 8 January 2016 if no liability arises in that period. There is a corresponding liability included in Other Payables.

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

As at 31 December 2013 and 2012, the Company had amounts receivable from its subsidiaries, amounting to €1,483,464 (2012: €nil) relating to intergroup trading activities.

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 will invest in higher earning interest deposit accounts.

As described in Note 17, the Company raised €11.625m in cash through an IPO with the strategy of making acquisitions of suitable companies. The proceeds, net of share issuance costs, are held in short term deposits and demand accounts, to be used in acquisitions, as required. Note 25 includes information on the events since the reporting date, which include the use of some of the funds on hand.

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

Credit risk

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

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

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

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

23 Financial Instruments and risk management continued

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

Group

	Total €	Not past due €	1-2 months overdue €	More than 2 months past due €
As at 31 December 2012	1,397,248	1,009,472	199,583	188,193
As at 31 December 2013	**1,303,462**	**923,224**	**295,408**	**84,830**

The above balances relate to customers with no default history.

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

	2013 €	2012 €
Provision at the beginning of the year	65,808	54,246
Charged to income statement	15,480	11,562
Utilised	–	–
Provision at end of the year	81,288	65,808

Related party receivables of €nil were not past due at 31 December 2013 (2012: €247,021).

Company

Intercompany receivables of €1,483,464 were not past due at 31 December 2013 (2012: €nil).

Currency risk

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

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

The Group's policy, where possible, is for Group entities to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and the expenses incurred and by settling liabilities denominated in their functional currency with cash generated from their own operations in that currency. In order to monitor the Group's exposure to foreign exchange risk, the board receives a monthly analysis of the major currencies held by the Group, and of liabilities due for settlement and expected cash reserves.

The Group is predominantly exposed to currency risk on the proceeds of the IPO, which are retained as sterling deposits. The effect of a 10% strengthening of sterling against the euro at the reporting date on the sterling denominated bank balances carried at that date would, all other variables held constant, have resulted in a decrease in post-tax profit for the year and a decrease of net assets of €1,191,870 (2012: €nil). A 10% weakening in the exchange rate would, on the same basis have increased post-tax profit and increased net assets by €975,095 (2012: €nil).

The Group's policy is not to enter into any currency hedging transactions.

Total financial assets and liabilities

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

Liquidity risk

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

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

23 Financial instruments and risk management continued

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 2013

	Total €	Within 1 year €	1-2 years €	2-5 years €
Trade payables	503,634	503,634	–	–
Other accounts payable	671,507	671,507	–	–

Year ended 31 December 2012

	Total €	Within 1 year €	1-2 years €	2-5 years €
Trade payables	701,197	701,197	–	–
Other accounts payable	361,897	361,897	–	–

Company

Year ended 31 December 2013

	Total €	Within 1 year €	1-2 years €	2-5 years €
Other accounts payable	321,764	321,764	–	–

Year ended 31 December 2012

	Total €	Within 1 year €	1-2 years €	2-5 years €
Other accounts payable	–	–	–	–

24 Operating lease commitments

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

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

Group

	2013 €	2012 €
Not later than one year	553,465	617,198
Later than one year and not later than five years	1,629,476	1,793,215
Later than five years	498,477	788,249
	2,681,419	3,198,661

25 Events after the reporting date

Acquisition of Liquid Violet Limited

On 15 January 2014 the Company acquired the entire issued share capital of Liquid Violet Limited, a video games voice production services company, registered in the UK. Liquid Violet specialises in the management, on behalf of major video game publishers and the acquisition is in line with the Group's strategy of growing both organically and by acquisition to extend the Group's client base, market penetration or service lines, where the Group can use its existing expertise, multi-service platform, scale and global reach to generate synergies.

Under the terms of the acquisition, which will be immediately earnings enhancing, Keywords Studios has paid an initial cash consideration of £300,000 with a further £1.3 million payable in cash contingent upon Liquid Violet achieving certain financial targets in the three years to 31 March 2016.

The book value of the net assets acquired is as follows:

	€
Property plant and equipment	17,428
Trade receivables	13,017
Other receivables	12,995
Payables	(69,297)
Cash	95,153
Total	69,296
Fair value of consideration paid	1,298,814
Goodwill	1,229,518

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

Fair value of consideration payable

	€
Cash	361,337
Deferred consideration	937,477
	1,298,814

Acquisition of Babel Media Group

On 17 February 2014, the Company acquired the entire issued share capital of Babel Media Limited, a company registered in the UK, together with its subsidiary companies. Babel Media is a leading provider of outsourced video games services with operations in the UK, Canada and India.

The acquisition will extend the Group's client base, market penetration or service lines, where the Group can use its existing expertise, multi-service platform, scale and global reach to generate synergies.

25 Events after the reporting date continued

The book value of the net assets acquired is as follows:

	€
Property plant and equipment	678,076
Trade receivables	499,512
Other receivables	714,516
Multimedia tax credit receivable	1,200,172
Bank overdraft	(677,785)
Trade and other payables	(4,377,693)
Finance leases	(76,628)
Total	(2,039,830)
Fair value of consideration paid	2,686,057
Goodwill	(4,725,887)

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

Fair value of consideration payable

	€
Shares issued	2,686,057
	2,686,057

Incorporation of Keywords International Pte. Limited

On 24 March 2014, the Directors incorporated Keywords International Pte. Limited, a company registered in Singapore, as part of the Group's continuing geographic expansion, and to allow it to service the games industry in South East Asia.

Company information

Directors
Ross King Graham
(Non-Executive Chairman)*

Andrew John Day
(Chief Executive Officer)

David Alan O'Connor
(Group Financial Director)

David Alan Reeves
(Non-Executive Director)*

Giorgio Guastalla
(Non-Executive Director)

* Denotes independent director

Registered office and principal place of business
London office:
8 Clifford Street
London W1S 2LQ

Dublin office:
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South County Business Park
Dublin 18 Ireland

Company Secretary
David O'Connor

Nominated Adviser and Broker
Numis Securities Limited
The London Stock Exchange Building
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Financial PR Adviser
MHP Communications
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Solicitors to the Company
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Squire Sanders (UK) LLP
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Reporting accountant
BDO LLP
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Auditors
BDO
Beaux Lane House
Mercer Street
Lower Dublin 2 Ireland

Solicitors to the Nominated Adviser
Dorsey & Whitney (Europe) LLP
21 Wilson Street
London EC2M 2TD

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Capita Asset Services is our registrar and they offer many services to make managing your shareholding easier and more efficient.

Share portal
The Share Portal is a secure online site where you can manage your shareholding quickly and easily. You can:

- View your holding and get an indicative valuation
- Change your address
- Arrange to have dividends paid into your bank account
- Request to receive shareholder communications by email rather than post
- View your dividend payment history
- Make dividend payment choices
- Buy and sell shares and access a wealth of stock market news and information
- Register your proxy voting instruction
- Download a stock transfer form.

To register for the Share Portal just visit www.capitashareportal.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

Customer support centre
Alternatively, you can contact Capita's Customer Support Centre which is available to answer any queries you have in relation to your shareholding:

By phone – UK – 0871 664 0300 (UK calls cost 10p per minute plus network extras). From overseas – +44 20 8639 3399. Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays.

By email – shareholderenquiries@capita.co.uk

By post – Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Sign up to electronic communications
Help us to save paper and get your shareholder information quickly and securely by signing up to receive your shareholder communications by email.

Registering for electronic communications is very straightforward. Just visit www.capitashareportal.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.

Donate your shares to charity
If you have only a small number of shares which are uneconomical to sell you may wish to donate them to charity free of charge through ShareGift (Registered Charity10528686). Find out more at www.sharegift.org.uk or by telephoning 020 7930 3737.

Share fraud warning
Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Conduct Authority (FCA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF
If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- Get the name of the person and organisation contacting you.
- Check the Financial Services Register at http://www.fca.org.uk/ to ensure they are authorised.
- Use the details on the FCA Register to contact the firm.
- Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
- Search our list of unauthorised firms and individuals to avoid doing business with.

REMEMBER: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REPORT A SCAM
If you are approached about a share scam you should tell the FCA using the share fraud reporting form at http://www.fca.org.uk/ scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Identity theft
Tips for protecting your shares in the company:

- Ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee.
- Keep correspondence from us and Capita in a safe place and destroy any unwanted correspondence by shredding.
- If you change address, inform Capita in writing or update your address online via the shareholder portal. If you receive a letter from Capita regarding a change of address but have not moved, please contact them immediately.
- Consider having your dividend paid directly into your bank. This will reduce the risk of the cheque being intercepted or lost in the post. If you change your bank account, inform Capita of the details of your new account. You can do this by post or online via the shareholder portal.
- If you are buying or selling shares, only deal with brokers registered and authorised to carry out that type of business.
- Be wary of phone calls or e-mails purporting to come from us or Capita asking you to confirm personal details or details of your investment in our shares. Neither we nor Capita will ever ask you to provide information in this way.

Contacts

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