KEYWORDS

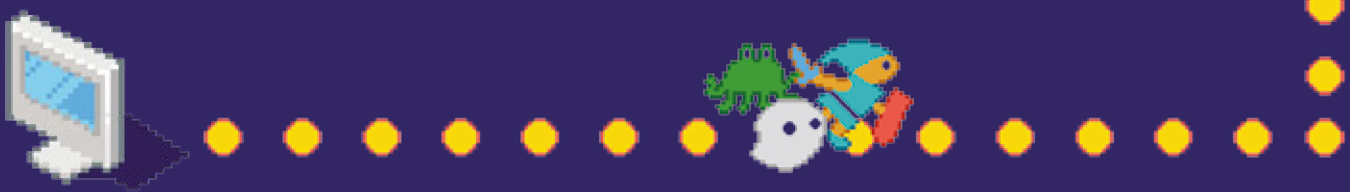
A global service delivery platform for the video games industry

ANNUAL REPORT AND ACCOUNTS 2016

Keywords is the leading international creative and technical services provider to the global video games industry.

Established in Dublin in 1998, Keywords now has 27 studios across Europe, North and South America and Asia. It provides integrated art creation, audio recording, localisation, testing, and customer support services across 50 languages and 14+ games platforms, to a blue-chip client base around the world.

Its customers comprise many well-known multi-national games publishers and developers including 21 out of the 25 largest games companies by revenue.*



Visit the website for further information
www.keywordsstudios.com

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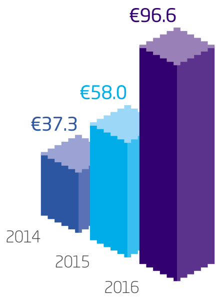
* Source: NewZoo, Top 25 Companies by revenues, December 2016, and management information.

HIGHLIGHTS IN 2016–2017

Revenue (m)

€96.6m

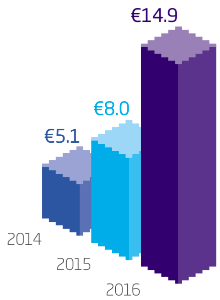
↑67%



Adjusted profit before tax (m)

€14.9m

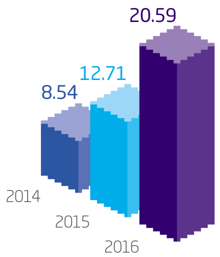
↑86%



Adjusted earnings per share (c)

20.59c

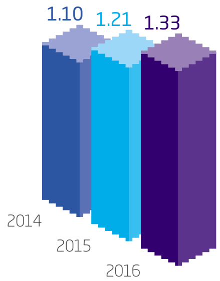
↑62%



Dividend per share (p)

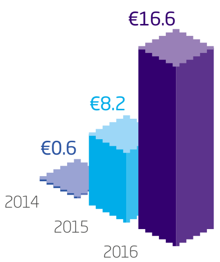
1.33p

↑10%



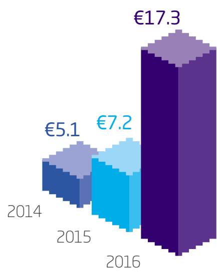
Art creation (m)

↑102%



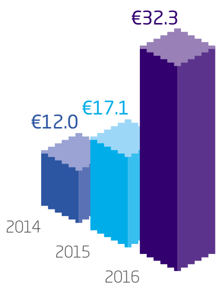
Audio services (m)

↑140%



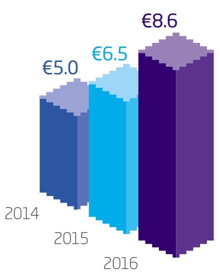
Localisation services (m)

↑89%



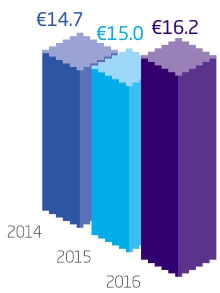
Functional testing (m)

↑32%



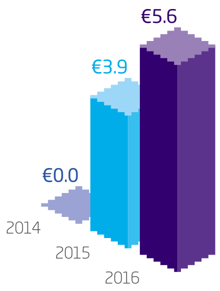
Localisation testing (m)

↑8%



Customer support (m)

↑44%

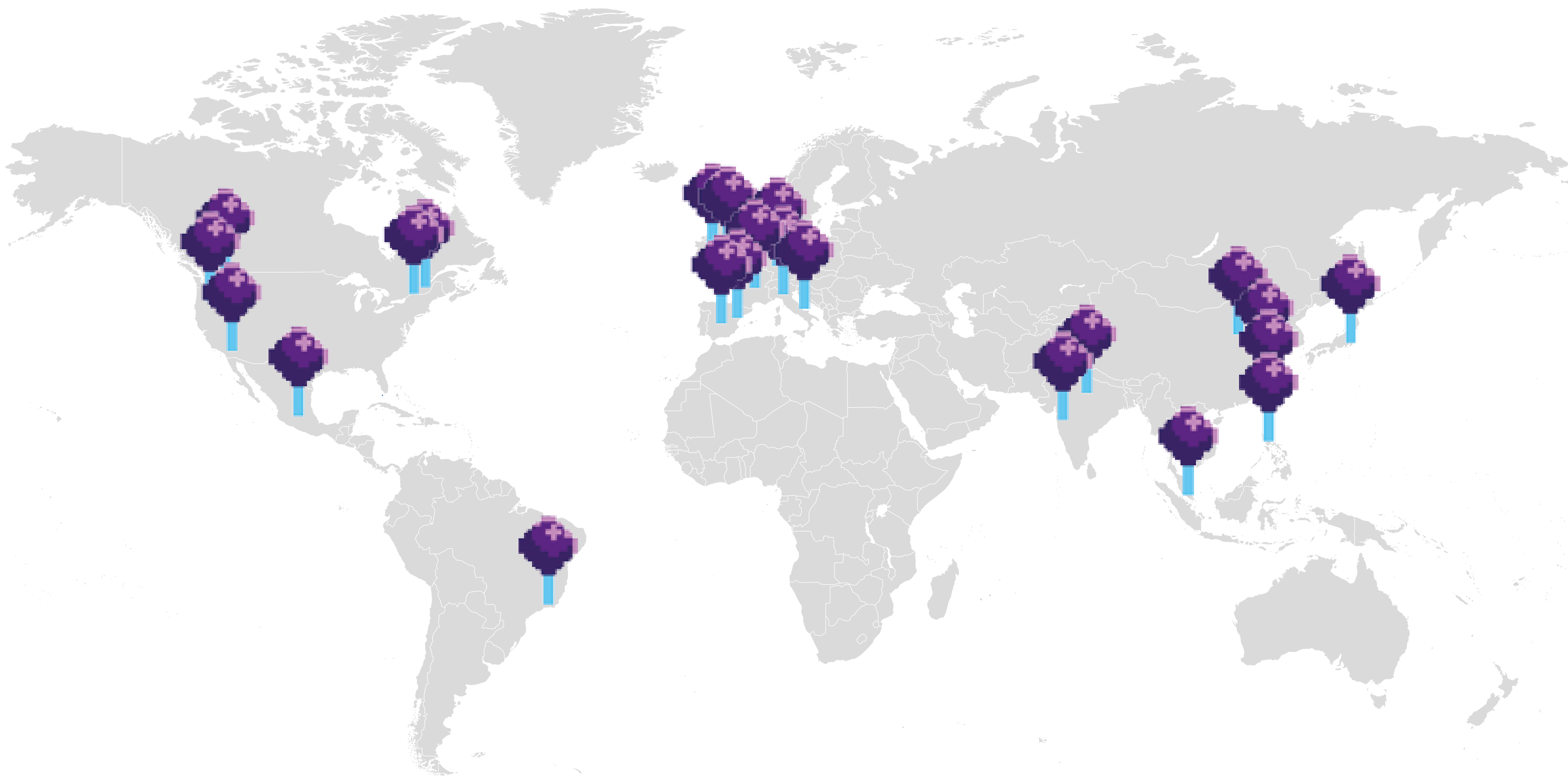


Further extended our global reach

The Group now has 27 studios strategically located to provide full, integrated services by combining a presence that is local to our clients in key gaming clusters with lower cost production sites across four continents. Since the beginning of 2016, we have expanded further organically and by acquisition into new locations, including Quebec City, Hamburg, Paris and Taipei.

Keywords has offices in 23 cities worldwide:

Dublin (HQ)	**Tokyo**	**Taipei**
Rio de Janeiro	**Singapore**	**Shanghai**
Montreal	**New Delhi**	**Beijing**
Quebec City	**Pune**	**Manila**
Portland	**Rome**	**Hamburg**
Mexico City	**Milan**	**Paris**
Los Angeles	**Barcelona**	**London**
Seattle	**Madrid**	



50+

Providing services across more than 50 languages

14+

and more than 14 games platforms to a blue-chip client base in over 15 countries

21

serving 21 of the top 25* games companies by revenue

27

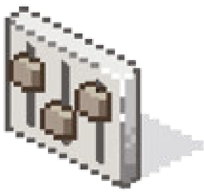
from 27 studios worldwide

In contrast to 2014 and 2015, during which we added Customer Support and Art, 2016 was focused on adding capabilities and scale to and deriving synergies from the same six service lines.

ART CREATION

The creation of graphical art assets for inclusion in the video game including concept art creation, 2D and 3D art asset production, animation and cinematics.

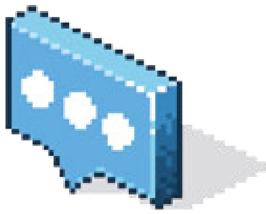
See more on Page 16



AUDIO

Multi-language voiceover recording, original language voice production and related services.

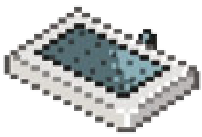
See more on Page 16



LOCALISATION

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

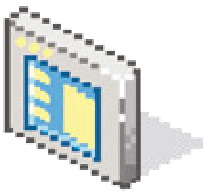
See more on Page 16



FUNCTIONAL TESTING

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

See more on Page 17



LOCALISATION TESTING

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

See more on Page 17

CUSTOMER SUPPORT

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

See more on Page 17

* Source: Newzoo, Top 25 Games Companies by Revenues, December 2016.

Continued organic and acquisitive growth globally

Ross Graham
Chairman

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

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

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

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

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

"Keywords performed ahead of previous expectations in 2016 as a result of another year of strong organic and acquisitive growth."

REASONS TO INVEST IN KEYWORDS

ACCESS TO HIGH GROWTH MARKET

Keywords operates in an exciting high growth market, without the risk of direct exposure to the successes or failures of individual game titles and our focus on content means that we are platform agnostic. The increased sophistication of games and complexity of the video games market is driving demand for larger, professional, outsourced specialists, such as Keywords, in a highly fragmented supplier market.

MARKET LEADING POSITION

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

STRONG GROWTH RECORD

In addition to delivering strong like-for-like growth, we have successfully acquired and integrated 16 acquisitions since IPO adding two new services, Art Creation and Customer Support, as well as extending our existing service lines and geographical reach.

OPPORTUNITY TO GROW FURTHER

Having made strong progress in extending the Group's client base, market penetration, geographic footprint and service lines, we now see significant potential for increased cross pollination of our service lines and geographic locations, including taking advantage of our dual shore capabilities.

A STRONG BUSINESS MODEL

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

Managing and funding growth

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

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

Culture of quality and people

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

Shareholders and dividend

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

Current trading and outlook

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

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

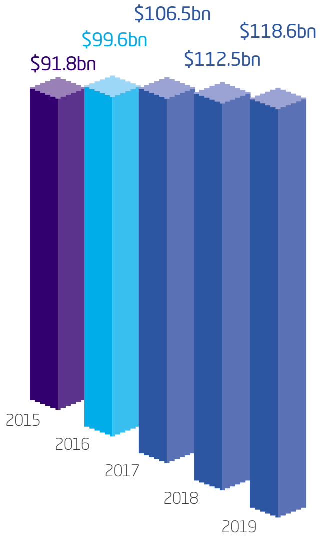
Ross Graham
Chairman
4 April 2017

The leading provider in a growing market

Global games market size 2015-2019 ($bn)

$118.6bn

↑6.6% CAGR



Source: Newzoo, Global Games Market Report, June 2016.

STRONG GROWTH IN CONTENT SET TO CONTINUE

The global video games industry is set for further significant growth over the next few years. According to Newzoo, the market will be worth $118.6bn by 2019, representing a 2015 to 2019 Compound Annual Growth Rate ("CAGR") of almost 7% (Newzoo Global Games Market Report, June 2016). Newzoo expects eSports, VR and collectible and tradeable gaming to be the key new trends in the evolution of global gaming over the coming years, all of which will continue to drive richer and deeper content. The Asia-Pacific region remains the largest market with a dominating 47% share and an impressive 10.7% year-on-year growth in 2016.

RICHER AND CONTINUALLY UPDATED CONTENT SUPPORTED BY HIGHER PERFORMANCE GAMES PLATFORMS

As technology platforms develop, bringing increased processing power, connectivity and storage, they support ever more complex content creation, in turn driving consumer demand for more innovative and richer content. This content takes much longer for games developers to create, requiring significantly larger teams, and therefore driving games developers towards outsourced development partners who can provide the specialist support they require, when they need it.

PROLIFERATION OF PLATFORMS EXPECTED TO CONTINUE AS VIRTUAL REALITY BECOMES MORE ESTABLISHED

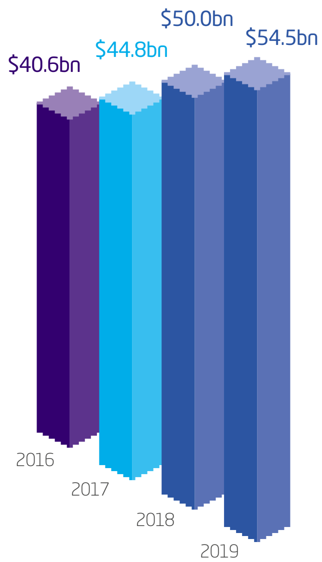
2016 has been considered to be a "breakthrough year" for Virtual Reality ("VR") according to **PWC's Global entertainment and media outlook 2016-2020, June 2016** report. With the release of a first generation of consumer virtual reality headsets from Facebook/Oculus, Sony, Samsung and HTC in 2016, the VR experience is beginning to reach a wider consumer market and further advances in this hardware form, as well as the quality of content supported by higher specification hardware, is expected to drive further consumer uptake over the coming years. North America has accounted for approximately 35% of the global demand in recent years, with the market demand due to double by 2022 to around $4bn. The Asia-Pacific region is currently the most lucrative virtual reality gaming market and is also expected to emerge as the fastest growing (**Grand View Research, Virtual Reality in Gaming Market Analysis by Component, March 2016**).

Despite the exciting VR opportunity, mobile gaming continues to offer the biggest immediate growth potential, with smartphone gaming set to grow by $13.9bn to $54.5bn in 2019 – a CAGR of almost 8%. This has been driven by the rise of 'mid-core' casual gamers, with titles such as Clash of Clans and Game of War: Fire Age generating revenues of around $1bn in revenue each (**SuperData, 2016 Year in Review, Digital Games and Interactive Media, December 2016**).

Mobile games revenue 2016-2019 ($bn)

$54.5bn

↑9% CAGR



Source: SuperData, 2016 Year in Review, Digital Games and Interactive Media, December 2016.

An efficient team playing a strong game

Fred Stockton
Head of Art Creation

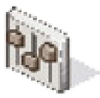
Q: Art is still a relatively new service line for Keywords. How has it developed during the year?

A: We initially entered the art outsourcing market with the acquisition of Lakshya at the end of 2014. Since then, we have grown rapidly, both organically and through further acquisitions, expanding the team from 200 to 850 and annualised revenues from c.$4m to c.$20m.

2016 has seen us acquire Mindwalk which was the Group's first significant move into the fast-growing Chinese market. Importantly, we also added to our services with the acquisition of Volta which provides concept art for video game developers. So we now work with clients at the very early, creative design phase of games, helping them to set the look and feel of the game and develop reference material to be used by art studios, such as Lakshya, Liquid Development and Mindwalk, to produce the art assets. In the first quarter of 2017 we also added Spov to the family, extending our services into high-end cinematics and motion graphics.

Q: Are the different teams across art services increasingly working together?

A: Yes, we are already working across different studios for many of our clients. It's a model that really appeals to our clients because we can seamlessly ensure that the assets produced are consistent with the original concept and we can blend higher cost on-shore service with lower cost off-shore production sites in India and China.



Andrea Ballista
Head of Audio Services

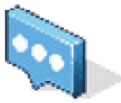
Q: What was behind the rapid growth in Audio in 2016?

A: We saw both good underlying growth and an exceptionally strong performance from newly acquired Synthesis which benefitted from some very large audio projects in the year. The acquisitions of Synthesis, Kite Team and Sonox have transformed the scale and geographical spread of our audio services team, which is now an undisputed world leader.

Q: Is there still room for growth if you are now the market leader?

A: We are very strong in the market for integrated, multi-language voice-over recording but some game companies still source key languages direct on a single language basis. Our Italian, Spanish, Mexican and Brazilian operations benefit as go-to studios for their respective languages, and there is an opportunity to create the same for other key languages, such as French, German and Japanese.

Rapid development of mid-core games played on smartphones means they are not only becoming larger and richer in content but they are also using audio more. VR is also increasing the demand for audio services as this richer, more immersive content form demands audio to match.



Fabio Minazzi
Head of Localisation Services

Q: What drove yet another great performance for Localisation in 2016?

A: We were very pleased with Localisation's performance in 2016 as, despite having been one of the Group's largest service lines at the time of the float, we have continued to grow strongly. This reflected greater demand for more languages for mobile games and a strong performance from newly acquired Synthesis.

Q: What do you expect to see in 2017?

A: I think we'll continue to see growing demand from mobile games which are rapidly becoming bigger franchises and are being supported in a wider number of territories. Likewise, our portfolio of AAA games for console and PC is unmatched anywhere and our 20+ years' expertise is much valued by our clients who can rely on us to deliver time after time despite often challenging timelines.

Overall, I see content for games only growing from here and as it does, so we will be there to localise it into an increasing number of languages. Chinese and Arabic have seen rapid growth for us over the past two or three years and we expect these languages to continue to grow alongside more emerging languages for video games.

Mathieu Lachance
Head of Functional Testing

Q: Functional Testing had a good year in 2016 – what were your biggest successes?

A: We had a strong performance in part due to good demand from existing customers, such as Oculus, but also from new clients for this service line such as Ubisoft. 2016 also saw us add some exciting new services with the acquisition of Player Research, which has ensured that the experiences of more than 600 million gamers have been as close as possible to the designers' vision. The acquisition of Enzyme added focus group testing, which fits well with Player Research's services in addition to expanding our Functional Testing capability.

Q: What do you expect to see in 2017?

A: We expect to integrate Enzyme with our other activities in this space by the middle of 2017. This includes moving to a common operating platform, which will help us maximise operational benefits and ensure our service delivery remains robust as we leverage our increased scale and dual testing locations in Quebec.

Having successfully started managing Functional Testing services on behalf of our clients on their premises, we also anticipate other major clients moving from an in-house model to managed services.

Thomas Barth
Head of Localisation Testing

Q: How was 2016 for Localisation Testing?

A: The addition of localisation testing operations from Synthesis and from Enzyme boosted our service line during 2016 and we are working to have these operations fully integrated by mid-2017.

We continue to enjoy a leadership position for this specialised service and are innovating new operational models with our colleagues in localisation and customer support in particular to efficiently support the continuous content models of large, successful mobile games and online game franchises. As is typical in localisation testing, we saw a higher level of activity in the second half of the year as a greater proportion of games are tested ahead of Christmas launches but we also saw very good levels of activity through December.

Q: What does 2017 have in store for Localisation Testing?

A: Over many years we have established some deep and long-lasting relationships with our clients. These have been evolving year-on-year and we believe that the addition of Synthesis and Enzyme activities in localisation testing will help drive more of these client relationships towards true strategic partnerships.

Fred Arens
Head of Customer Support

Q: Customer Support is another relatively new service line for Keywords – how has it developed during 2016?

A: 2016 has been an important year for Customer Support, which we first established with the acquisition of Alchemic Dream in 2015. 2016 saw us acquire the Philippines-based customer support team from Ankama which took us into live operations support, promotions and fraud management and we have since significantly increased the scale of its operations by moving to larger, newly fitted out offices. We have made much progress with leveraging the Group's wider infrastructure by seeding customer services into many of the Group's existing studios.

Q: How will you be taking this service line forward in 2017?

A: We are pursuing our strategy for growth by leveraging our secure studio facilities while maintaining the highly flexible remote working model pioneered by Alchemic Dream, giving us excellent coverage across over 30 languages in all time zones, 24/7.

In several facilities we have begun to share talent creating specialist support teams with detailed game knowledge acquired during functional and localisation testing, providing a significant point of differentiation from existing large-scale call centres. It has the added benefit of smoothing seasonal peaks and troughs in our testing staffing requirements.

Growing through operational efficiency

OUR VISION

To be the "go to" global service delivery platform for the video games industry.

OUR STRATEGY

To grow organically and by acquisition to extend the Group's client base, service lines and geographical penetration, where the Group can use its existing expertise, multi-service platform, scale and global reach to generate synergies in a highly fragmented games service industry.

STRATEGIC PRIORITY

DEVELOPING CUSTOMER RELATIONSHIPS AND OUTSOURCING

PROGRESS IN 2016

- Same services to existing customers accounted for c.80% of revenues.
- Initial outsourcing arrangement with Ankama established a platform in Manila from which to grow further in Asia.
- 64 of our c.400 clients now use 3 or more services.

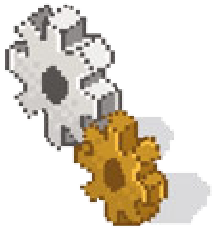
KPI

25%

Increase in clients using 3 or more services.

STRATEGIC PRIORITY

EXTENDING OUR SERVICES



PROGRESS IN 2016

- Extended our customer services operation to add live operations, promotions management, fraud management, quality assurance and bot hunting.
- Expanded our Functional Testing offering, adding services such as player research and focus group testing and strengthening our compatibility and certification testing services.
- Our newer art creation and customer support services accounted for 17% and 6% of Group revenues respectively.

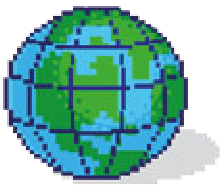
KPI

€25.2m

Revenues from non-language-based services.

STRATEGIC PRIORITY

EXPANDING OUR GEOGRAPHICAL REACH



PROGRESS IN 2016

- Bolstered European presence, adding sites in Paris, France; Hamburg, Germany; and Brighton, UK.
- Also, added locations in Taipei, Taiwan; Beijing, China; Manila, Philippines; and St Jerome near Montreal, Canada.
- Now have a strong presence across four continents.

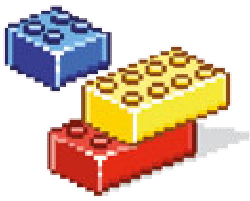
KPI

27

Grew from 19 to 27 studios globally during 2016.

STRATEGIC PRIORITY

SELECTIVE ACQUISITIONS



PROGRESS IN 2016

- Milestone €18m acquisition of Synthesis positioned Keywords as the global leader in video game localisation and voice-over recording.
- Acquisitions of Volta and Mindwalk Studios reinforced strong art creation offering.
- Brighton-based Player Research added new capabilities in user testing, fitting well with the focus group testing services offered by newly acquired Enzyme Testing Labs.
- Sonox strengthened the Group's Audio services in Spanish and Latin American markets.

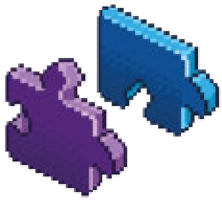
KPI

€21.1m

Net cash consideration for acquisitions in 2016.

STRATEGIC PRIORITY

DRIVING OPERATIONAL EFFICIENCY AND SYNERGIES



PROGRESS IN 2016

- Each service line within Keywords operates on a global toolset providing common project management, workforce management and operational reporting capabilities onto which acquired entities are migrated. The exception to this is Art which is in the process of assessing several operating systems.
- We are consolidating three studios into two around Montreal following the acquisition of Enzyme, and have brought Kite Team, Synthesis Iberia and Sonox together into the Kite Team premises in Madrid.
- Customer support has been introduced into Montreal, Dublin and Tokyo facilities where we have begun to share talent between testing and customer support.

KPI

22.4%

Operating expenses reduced to 22.4% of revenue (2015: 23.5%).

Creating value and growth

DRAWING ON OUR KEY STRENGTHS

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

Flexible resource model
Allows us to scale up or down to meet demand, mirroring the seasonality of games production.

Knowledge and expertise
Deep games-specific knowledge and experience of working on multiple instalments of AAA game franchises.

Reputation for quality
Our commitment to quality, reliability and integrating with our clients' processes promotes long-term customer relationships.

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

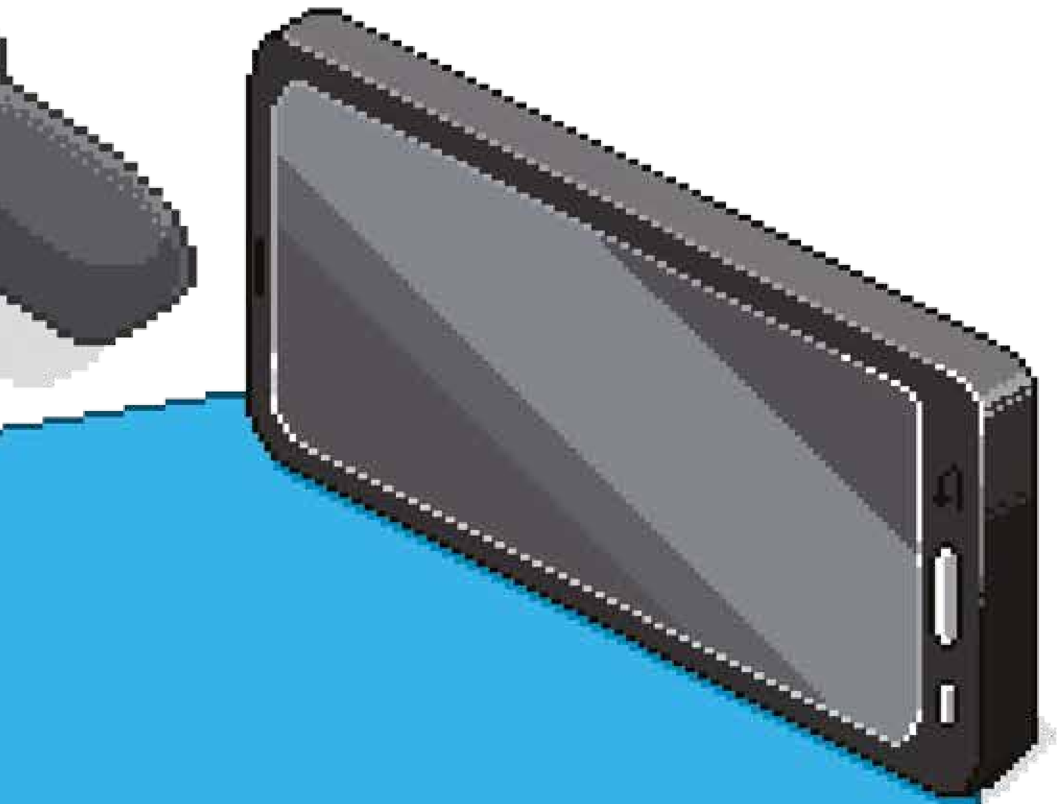
Acquisition track record
We have a strong track record in identifying acquisitions with a strong fit with Keywords in terms of culture as well as expertise or geography and integrating them effectively to support their growth.

OPERATIONAL EFFICIENCY

1 PRE-PRODUCTION
- **Concept art**
- Level design

2 EARLY STAGE GAME DEVELOPMENT
- Programming/co-development
- Story writing
- Motion capture
- Development quality assurance
- Game trailers
- **Art production**
- **Cinematics/visual effects**
- **Audio production**
- **Original language voice production**
- Music scoring
- Sound design

6 NEW CONTENT FOR GAMES
- **Art**
- **Audio**
- **Testing**
- **Localisation**
- Marketing



3
LATER STAGE GAME DEVELOPMENT
- **Functional testing**
- **Text localisation**
- **Audio localisation**
- **Localisation testing**
- **Player research**
- Game porting

4
LAUNCH
- **Certification testing**
- Marketing

5
ONGOING LIVE OPERATIONS SUPPORT
- **Customer support**
- **Community management**
- Data analytics
- Payments processing

CREATING VALUE FOR OUR STAKEHOLDERS

INVESTORS
Consistent track record of delivering earnings and dividend growth.

Increase in adjusted EPS since 2013

290%

ACQUIRED BUSINESSES
Strong financial position makes us attractive to potential new acquisitions.

The Group had €17m in cash at the year end and had utilised €8m of its €15m rolling credit facility, giving it headroom for acquisitions.

Cash at year-end

€17m

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

Average number of employees

1,818

Strong growth complemented by acquisitions

Andrew Day
Group Chief Executive Officer

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

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

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

Results overview

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

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

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

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

"2016 saw Keywords continue to grow strongly, both organically and through acquisitions."

CASE STUDY LAKSHYA

20%
Increase in revenue per person

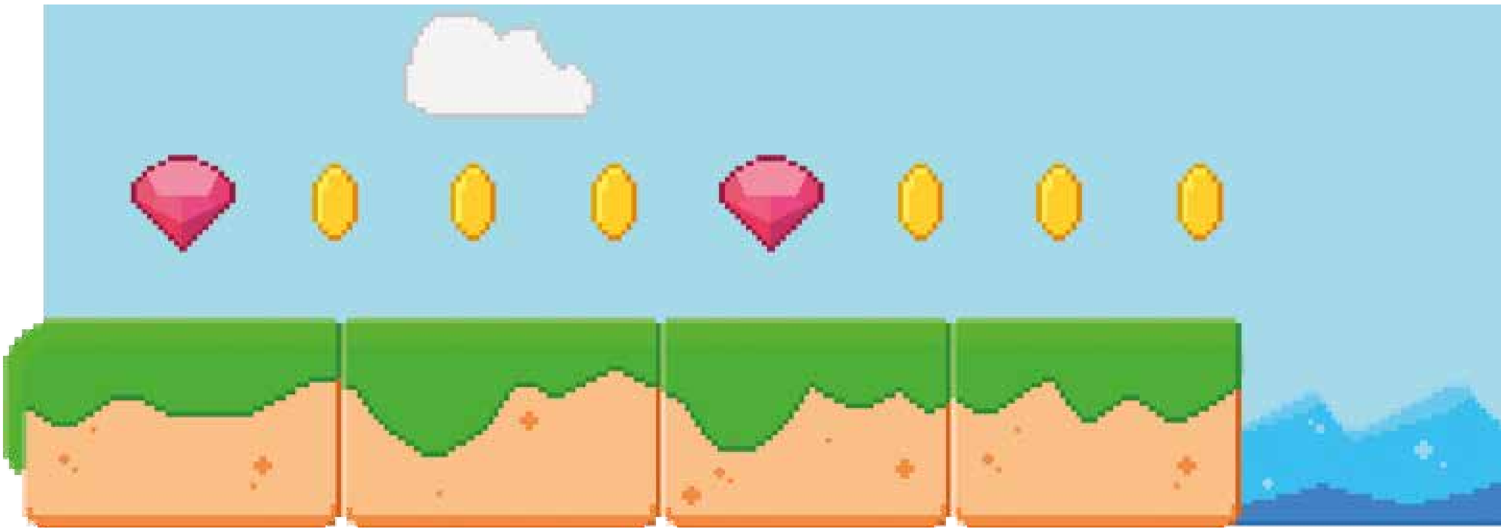
LAKSHYA DIGITAL WAS FOUNDED IN INDIA IN 2004 TO PROVIDE VIDEO GAME ART CREATION SERVICES A TIME WHEN THE COUNTRY WAS NOT KNOWN FOR ITS GAMING INDUSTRY. IN 2014 THE TEAM, WHICH HAD BEGUN AS SIX PEOPLE, NUMBERED 204.

At that time, the founders of Lakshya decided that to drive the business to its next level of growth, it would join the Keywords Studios family. Keywords was already an established name in the global games market and provided Lakshya with an easy stepping stone to set up a North American art studio in one of Keywords existing facilities. Lakshya chose Seattle, gaining access to top talent and local clients. The support provided by Keywords allowed Lakshya to both expand its capabilities in India with management from Seattle and create a local interface with its US clients. It then used this combination of increased skills and management support in Seattle to further grow its established Japanese customer base.

Keywords operates in a very fragmented market that it is consolidating to expand its global offering to video game developers and publishers while maintaining individual studio brands, service lines and hence preserving choice for its clients. The benefits of the Lakysha acquisition to both businesses were two-fold – the new Seattle studio opened doors for numerous US and Japanese clients whilst Keywords can tap into a strong pool of raw art talent in India.

As part of Keywords, not only has the team at Lakshya grown from 204 to 418 people, but the revenue per person has increased by over 20%, reflecting the added value delivered by the business combination through its focus on both growth and efficiency.

LAKSHYA



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

Adjusted basic earnings per share for the year (before one-time costs of acquisitions and integration, share option charges, amortisation of intangibles, and foreign exchange movements), increased to 20.59c compared with 12.71c for 2015. After these items, the basic earnings per share from continuing operations was 11.22c (2015: 6.98c).

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

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

Operational review

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

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

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

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

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

Audio
(18% of Group revenue for the year)

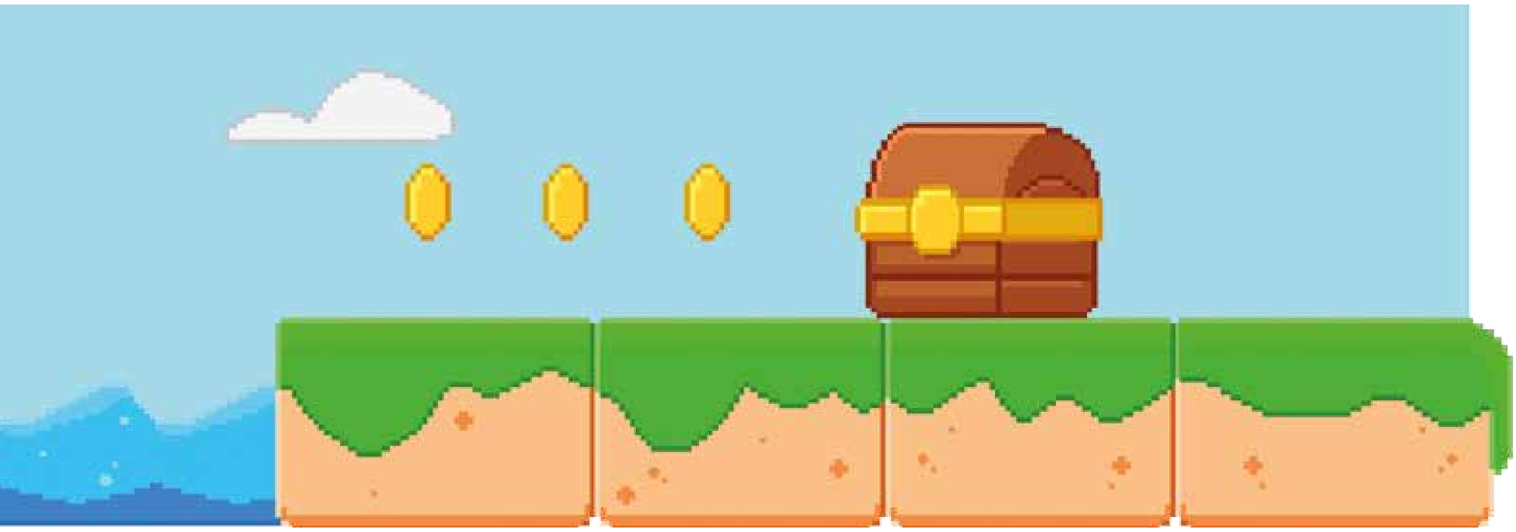
Our Audio business increased revenues by approximately 140% to €17.3m (2015: €7.2m) including contributions from Synthesis and Sonox which were acquired in April and December respectively. On a like-for-like basis, revenues in our Audio service line grew by approximately 20%.

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

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

Localisation
(33% of Group revenue in the year)

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



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

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

Functional Testing
(9% of Group revenue for the year)
Our Functional Testing services grew by 32% to €8.6m (2015: €6.5m), including a six-week contribution from Enzyme which was acquired in November 2016, and grew by 23% on a like-for-like basis.

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

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

Localisation Testing
(17% of Group revenue in the year)
Our Localisation Testing operations grew by 8% on both absolute and like-for-like bases to €16.2m (2015: €15.0m). The acquisition of Synthesis in April 2016 and Enzyme in November 2016 added acquired revenues to this service line for the first time since the acquisition of Babel Media in February 2014. Integration of both businesses is progressing well.

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

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

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

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

Delivering our strategy

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

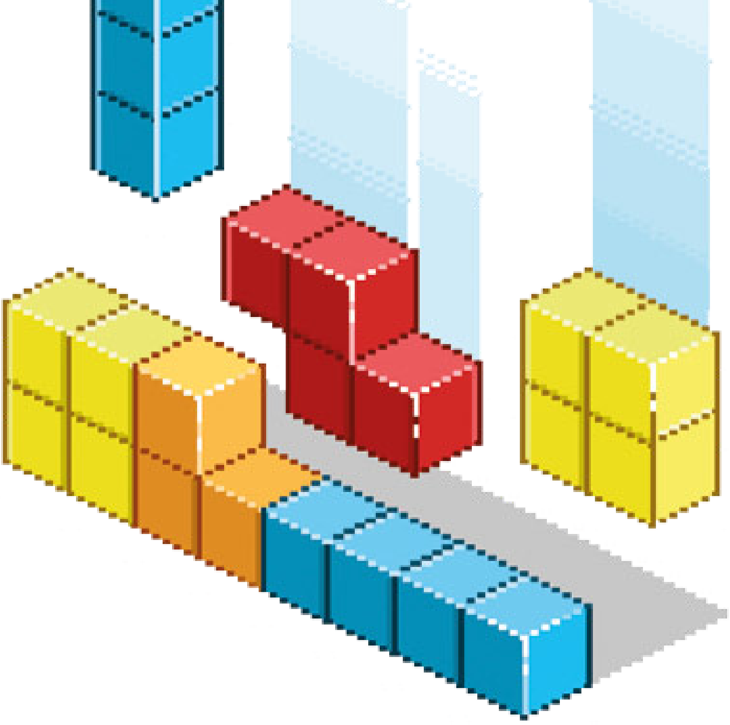
CROSS SELLING

THE LARGEST SINGLE OPPORTUNITY FOR KEYWORDS COMES FROM OUR OWN ABILITY TO GUIDE CLIENTS WHO ALREADY TRUST US WITH THEIR HIGH VALUE IPS TO OTHER SERVICES WE COULD PROVIDE TO THEM FROM WITHIN THE KEYWORDS GROUP.

Increased sales by 600% with a multi-platform game developer
First worked with this multiplatform game publisher/developer in 2009, when they used our localisation testing service for many years regularly providing Keywords with 60% and more of its requirements for their European markets. In 2013, Keywords was enlisted to provide localisation for new languages not being provided by the client's established localisation and audio providers. In 2014, Keywords started to provide services for the clients Americas region, particularly for localisation. In 2015, we established ourselves as suppliers to their Asian operations. The acquisition of Lakshya in 2014 brought us an important art services relationship with the client, while the acquisition of Synthesis in 2016 brought key localisation and audio languages work for the client. Today we are exploring the provision of functional testing services to the client and continue to discuss the possible provision of customer support. By expanding Keywords' relationship, we have increased Group revenues with this client by 600% over this period.

Four fold growth in annualised revenues from a leading mobile game developer
We started working with a leading mobile game developer for the localisation of their first game, starting in late 2014, which was launched into 11 languages. Since then we have worked on their second and third games, which are highly successful and are now localised in over 30 languages. Having begun to provide art for the client in 2016, Keywords has also recently been selected to provide customer service support as well as localisation testing, because of which annualised revenues from this client have increased by four-fold over the last three years.

Trebled revenues with market leading online game developer
We began our collaboration with this market leading online game developer in 2015 by providing some localisation and audio support. The number of languages grew over time, and in 2015 we established a service for the client from one of our secure facilities in which we provide localisation and localisation testing through teams specialised in each discipline but working together in a highly iterative fashion. This is being delivered in tandem with our audio recording and in-territory localisation services. Overall, our expanded relationships mean we have trebled revenues from this client over the two-year period.



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

People

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

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

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

Current market trends

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

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

Outlook

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

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

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

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

Andrew Day
Group Chief Executive Officer
4 April 2017

Extended service offering, market penetration and geographic reach

David Broderick
Chief Financial Officer

Group performance

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

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

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

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

Revenue mix

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

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

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

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

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

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

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

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

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

24%

Like-for-like revenue growth.

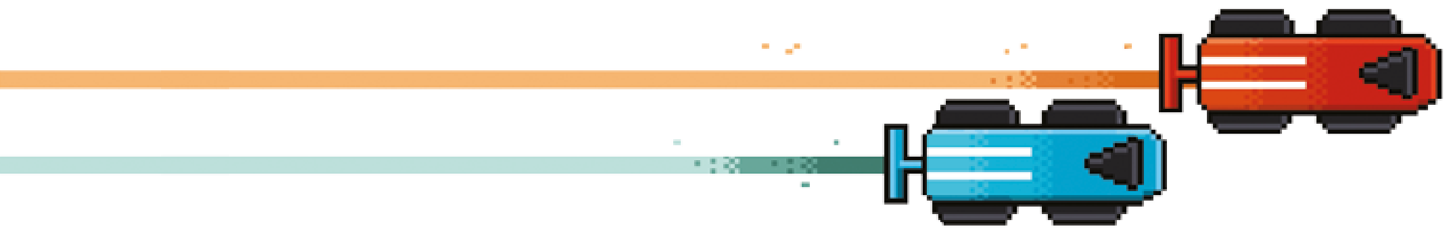
€35m

Agreed terms for a new €35m debt facility, providing further headroom for acquisitions.

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

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

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



Net finance costs

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

Adjusted Profit before Tax

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

Taxation

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

Basic earnings per share

Basic earnings per share for the year, before one-time costs of acquisitions and integration, share option charges, amortisation of intangibles, and foreign exchange movements, increased by 61% to 20.59c compared with 12.71c for 2015. Basic earnings per share based on the statutory profit after tax was 11.22c (2015: 6.98c).

Cash flow and debt

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

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

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

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

Foreign exchange

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

Dividend

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

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

Events after the reporting period

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

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

Key performance indicators

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

Financial performance is measured by:

- Revenue growth
  Revenue growth is measured by line of business and overall against the Board's strategic goal to grow organically and by acquisition.
- Gross profit
  Gross profit is a key measure of the Group's pricing strategies, use of resources and its ability to optimise resource utilisation.
- Overhead costs
  The Board monitors the overheads to ensure the costs of the Group are in line with the level of business being generated.
- Adjusted EBITDA margin
  The Board uses an adjusted measure of EBITDA to monitor the performance of the Group. This measure excludes foreign exchange gains or losses, any one-time expenses and the cost of employee share option awards.
- Adjusted operating profit margin
  The Board also uses an adjusted measure of operating profit to monitor the performance of the Group. This measure similarly excludes foreign exchange gains or losses, any one time expenses, and the cost of employee share option awards.

Non-financial performance is measured by:

- Resource deployment
  The Board reviews the efficiency at which the Group is utilising its staff resources to ensure optimum staffing strategies are deployed and to maximise utilisation rates.
- Business won/lost
  The Board reviews the levels of new business won and lost, and monitors the reasons for both, to ensure that the services being offered to the market are appropriately priced and relevant.
- Customer satisfaction and quality of service delivery
  The Board monitors the quality and timeliness of service delivery on an ongoing basis and reviews the level of repeat revenue from existing customers, typically around 80%, as a key measure of customer satisfaction.

David Broderick
Chief Financial Officer
4 April 2017

Managing risks efficiently

Keywords is a fast-growing but relatively small Group operating in a widespread geography. The markets we operate in are fragmented in terms of the suppliers of services but our client base is relatively concentrated with a number of very large, global companies at the head and a large tail of small, independent developers.

The market is highly dynamic, with technology, business models and consumer tastes evolving constantly. In this environment Keywords has the objective of becoming the leading global supplier of localisation, testing, audio, art and other related services to the industry and sees the following risks as it pursues this objective.

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; and
3. Those specific to the Keywords Group and its strategy.

Beyond the general business risks associated with any international company, the principal risks related to the industry or more specifically to Keywords and its strategy, as identified by the management and the Board, are set out below.

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 28.4% (2015: 36.4%) of the Company's revenues. These companies have exacting standards and demand a high quality of service. Any failure in this regard or breakdown in the relationships at the top level could cause considerable damage to the business. The potential impact is partially mitigated through the Company's highly flexible resource base and its expansion continues to reduce its exposure to any single large client.

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. Should the Company lose the confidence of investors, the Company's rating will suffer and this in turn will affect its ability to raise money for or place shares to pay for acquisitions. However, the Company makes every effort to communicate regularly with investors via announcements and face-to-face contact and this effective communication of how it continues to execute on its stated growth strategy and successfully integrate the businesses it acquires should continue to maintain the confidence of its investors.

SUDDEN BUSINESS INTERRUPTION

Keywords is a global business and needs to minimise business interruptions and be able to continue servicing customers. This threat could be internal such as a major failure in its IT systems but also external such as the Group experienced and managed during the 2011 Tokyo earthquake and tsunami. The Group's multiple, full-service, delivery hubs provide for a good level of contingency and, supported by a solid business continuity plan and comprehensive insurance, the effects of such disasters can be managed.

TECHNOLOGY

The Company uses various third party and proprietary tools and technologies for process control and productivity purposes. Continued investment in these tools is important to ensure the Groups' effectiveness. New technologies for automated testing, machine translation and crowdsourcing, could pose a threat to the Group in the long-term. The Company participates directly and with clients in various pilot programmes for new technologies to keep abreast of the state of the art.

INTERNAL RISKS

CYBER AND INFORMATION 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 an active acquisition strategy to reinforce its global growth. Managing such acquisitions successfully and embedding the Keywords culture is a crucial ingredient of success. Failure to do so will have adverse consequences such as management distraction, disposal and reduced profit. Since IPO, the Company has involved a broader number of senior managers in the acquisition and integration process, building on the considerable experience that exists at Board level thus providing further bandwidth to identify, execute and integrate acquisitions.

SERVICE DELIVERY

Most of Keywords' services are of a time-critical nature with delays or service delivery failures potentially impacting the development or launch plans for games. Timely delivery and the resourcing flexibility to enable delivery to tight deadlines has been an integral part of the Company's modus operandi, and Keywords' approach to project management is applied across the Group. With the expansion of the Group, measures are being taken to assess ongoing delivery performance beyond the regular project post-mortems that are routinely conducted.

CROSS CONTAMINATION

As the Group succeeds in delivering multiple services to the same clients, so the risk of failure in one service line contaminating the relationship with the client across the other service lines increases. Adhering to Keywords' strong standards of delivery and efficient communication across service lines is key to managing this risk.

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. Failure to accurately report or forecast financial results through error or fraud would damage the Group's reputation. Therefore, the Group has invested and continues to invest in its financial reporting functions to facilitate strong reporting and management control as it grows.

HUMAN RESOURCES/ TALENT MANAGEMENT

Keywords management structure has been fundamental to the Group's success. A failure to attract, retain or develop high quality entrepreneurial management across the business could impact on the attainment of strategic objectives. The Group is focused on this area with the implementation of globally managed service lines, management development and remuneration programmes, incorporating long and short-term incentives. A new Global HR Director is to be appointed in 2017 to further drive initiatives in this area.

LEGAL AND ETHICAL STANDARDS

A material failure to comply with applicable legal and ethical standards could result in penalties, costs, reputational harm and damage to relationships with suppliers and customers. The Group promotes a culture of "Doing the right Thing" in all activities. Business conduct guidelines are in place and are supported by more detailed policies and procedures where needed.

Ross Graham (69)
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 software product and solutions provider. He joined Misys as Finance Director upon its flotation, latterly becoming Corporate Development Director; throughout 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 was also a non-executive director at Wolfson Microelectronics Plc and was previously senior independent director and the audit committee chairman prior to its sale to Cirrus Logic Inc. in 2014. 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 in England & Wales. Ross was appointed Director and Chairman of Keywords prior to the flotation in July 2013.

Andrew Day (53)
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, a NYSE-listed advanced analytics business, FICO, before joining Keywords as its Chief Executive Officer in April 2009.

David Broderick (42)
Chief Financial Officer

David joined Keywords in 2016 from Dublin-based Arconics, a high-growth aviation software company where he was Chief Financial Officer. Prior to this, David was the Finance Director of European regional airline, Stobart Air (formerly Aer Arann), during a period of significant growth in 2013-2014. David previously spent eight years at Europe's largest low-cost airline, Ryanair Holdings plc, the latter six years of which were spent as Head of Investor Relations and overseeing the group's Inflight Sales Unit's finances and operations.

David Reeves (69)
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 (47)
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, the UK and France. In 2002 Giorgio founded Italicatessen Ltd, a company operating in the food sector. Giorgio was CEO of Keywords until 2009 before concentrating on his other business interests and moving to a non-executive Director role at Keywords Studios.

Directors' Report

The Directors present the annual report together with both the audited consolidated financial statements and the parent company (Keywords Studios Plc) financial statements for the year ended 31 December 2016.

Disclaimer

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

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

Dividends

The results for the year are set out on page 36. Dividends paid and proposed are set out on page 50. The Board is proposing a final dividend of 0.89p per share following the payment of an interim dividend of 0.44p per share in September, 2016.

Directors and changes to the Board

The Directors of the Company during the year were Ross Graham, Andrew Day, Andrew Lawton, David Reeves, Giorgio Guastalla and David Broderick.

Andrew Lawton resigned on 4 October 2016, and David Broderick was co-opted to the Board.

Details of members of the Board at 31 December 2016 are set out on pages 26-27.

Going concern

In view of the Group's resources, cash at 31 December 2016 of €17.0m, free cash flow in 2016 of €14.2m, results of operations, excluding acquisition and integration costs, 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 31. 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 the year end, were Directors of the Company can be found on page 26 under The Board of Directors.

Corporate Governance

Compliance with UK Corporate Governance Code

Keywords is committed to high standards of corporate governance throughout the Group. As a company whose shares are traded on AIM, it is not required to comply with all the requirements of the UK Corporate Governance Code 2015 ("the Code"). However, the Board recognises the importance of, and is committed to, ensuring that effective corporate governance procedures are in place as appropriate for a public company of its size and complexity and in the light of the risks and challenges it faces.

The Group's corporate governance arrangements are set out below:

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 auditors.

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 33 to 35.

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 areas in the business;
- Monthly financial reporting, for the Group and for each subsidiary, of actual performance compared to budget and the prior year;
- Annual budget setting; and
- 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 31 December 2016, 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	7,978,736	14.7%
Andrew Day	3,796,573	7.0%
Hargreave Hale, stockbrokers	3,720,076	6.8%
Invesco Perpetual	3,514,896	6.5%
Kabouter Management	3,296,126	6.1%
BlackRock	3,173,999	5.8%
Schroder Investment Management	2,218,897	4.1%
Liontrust Asset Management	2,079,381	3.8%

Future developments

Important events since the financial year end are described on page 19 of the Strategic Report and future developments are described in the strategy section of the Strategic report on page 10.

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 a peak of 2,666 in December 2016. Keywords permanent staff complement averaged 1,118 during 2016. This permanent headcount is supplemented with employees on short term contracts as activity changes throughout the year.

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

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

Corporate responsibility

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

Statement of Directors' responsibilities

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

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

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

In preparing these financial statements the Directors are required to:

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

Statement of Directors' responsibilities continued

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 26, confirm that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Website publication

The Directors are responsible for ensuring the annual report and 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 Broderick,
Company Secretary
4 April 2017

Directors' Remuneration Report

Dear fellow shareholder,

It is my pleasure to present the Directors' remuneration report for the period ended 31 December 2016.

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 have a duty to act in the best interests of their shareholders when determining remuneration. It is their 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. 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 year ended 31 December 2016, the remuneration committee met on three occasions.

Directors' emoluments and Pension Contributions

The aggregate remuneration for the Directors of the Company, for service in all capacities for the period year ended 31 December 2016 was €650,432 (2015: €645,727). The remunerations of individual directors were as follows.

	2016					2015				
	Salary or fees	Bonus	Pension	Share Options	Total	Salary or fees	Bonus	Pension	Share Options	Total
Andrew Day	204,025	61,208	-	-	265,233	187,395	61,983	–	38,546	287,924
David Broderick	36,218	10,865	-	-	47,083	–	–	–	–	–
David Reeves	63,819	-	-	-	63,819	66,610	–	–	–	66,610
Giorgio Guastalla	46,926	-	-	-	46,926	48,156	–	–	–	48,156
Ross Graham	67,736	-	-	-	67,736	68,812	–	–	–	68,812
Andrew Lawton	107,113	52,521	-	-	159,634	120,509	37,190	–	16,526	174,225
	525,838	124,594	-	-	650,432	491,482	99,173	–	55,072	645,727

Directors' Interest in Shares

The interests of each person who was a director of the Company as at 31 December 2016 (together with interests held by his or her connected persons) were:

	2016 Number	2015 Number
Giorgio Guastalla[1]	7,180,862	10,780,862
Andrew Day	3,796,573	5,296,573
David Reeves	28,732	22,510
Ross Graham	58,440	58,440
	11,064,607	16,158,385

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

Directors' Interest in Shares continued

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

Long-Term Investment Plan

	Start of year Number	Awarded Number	Exercised Number	Lapsed Number	End of year Number	Vesting Date
Andrew Day	86,593	–	–	–	86,593	12 July 2016
	35,000	–	–	–	35,000	1 June 2018
	–	60,000	–	–	60,000	10 May 2019
Andrew Lawton	50,000	–	–	–	50,000	03 July 2017
	35,000	–	–	(35,000)	–	01 June 2018
	–	35,000	–	(35,000)	–	10 May 2019
David Broderick	–	30,000	–	–	30,000	03 October 2019
	206,593	30,000	–	(35,000)	201,593	

Share Option Plan

	Start of year Number	Awarded Number	Exercised 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	

Awards of shares have vested or 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 that have vested are valid until 11 May 2020.

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 25 on related party transactions.

Giorgio Guastalla,
Chairman of the Remuneration Committee

Directors Remuneration Policy Report

Policy and principles

The Remuneration Committee determines the Company's policy on the structure of executive directors' and if required, senior management's 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.
- Provide a level of remuneration required to attract and retain high calibre executive directors and senior management of appropriate calibre.
- Encourage value creation through consistent and transparent alignment of incentive arrangements with the agreed company strategy over the long term.
- Ensure the total remuneration packages awarded to executive directors, comprising both performance-related and non-performance-related remuneration, is designed to motivate the individual, align interests with shareholders and comply with corporate governance best practice.

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

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

Remuneration components

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

The remuneration components are comprised of the following elements:

- Fixed remuneration (basic salary);
- Performance-based remuneration (variable salary in the form of an annual bonus);
- Pension contribution;
- Other benefits; and
- Long-term incentives (in the form of performance shares or share options).

For non-executive directors there is only one component, a base fee determined by the executive directors.

Basic salaries and benefits

Basic salaries are initially determined to reflect the role, and the responsibility of the individual within that role, while also upholding the principle of paying no more than is necessary (below the median).

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. With effect from 1 March 2017 salary increases of 7.5% have been awarded to the executive directors, Andrew Day and David Broderick. These are explained by the very material rise in the size of the business year on year. Even after the salary increases both executive directors have a base salary and maximum bonus below the median salary for a company of equivalent size and therefore in line with the Remuneration Policy as set out elsewhere.

Performance-based (annual) 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 of up to 30% 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% towards the Company's financial performance and 20% towards personal performance (however if the Company's financial performance is considered to be unsatisfactory the 20% for personal performance is likely to be foregone).

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%.

Pension contribution

At the discretion of the Remuneration Committee the executive directors and senior management may participate in a pension scheme facilitated by the Company. The Company does not operate any pension scheme or make pension provision for non-executive directors.

Benefits

During the period since incorporation, the Company has not contributed to any employment related benefits.

Long-term incentives

Share options

Share options programmes are in place for permanent members of staff, including the Senior Management. The focus of the share option programmes is to retain talent and create long-term shareholder value consistent with fulfilment of the company's long-term strategic 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 are made annually to a range of senior employees across the Company. Awards are made in the form of nil value 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 unvested share options or 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. Similarly good leavers, including those who have served as executive directors, may be allowed to exercise a proportion of unvested share options or LTIPs post termination when, or to the extent that, the underlying options or LTIPs meet the performance criteria for vesting.

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 above, 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 the term "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment were "agreed" at the time the award is granted.

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 2016 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity, and the 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 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 Financial Reporting Council's (FRC'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 the parent Company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

We have nothing to report in respect of the following matters 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,
Dublin 2,
Ireland.

4 April 2017

Consolidated Statement of Comprehensive Income

	Note	Years ended 31 December 2016 €'000	 2015 €'000
Revenues	4	96,585	57,951
Operating costs		(62,196)	(37,460)
Multimedia tax credits		2,289	1,287
Net Operating Costs		(59,907)	(36,173)
Gross profit		36,678	21,778
Share option expense	20	(686)	(392)
Costs of acquisition and integration		(1,316)	(1,089)
Amortisation of intangible assets		(1,629)	(857)
Other administration expenses		(21,588)	(13,616)
Administrative expenses		(25,219)	(15,954)
Operating profit		11,459	5,824
Financing income	6	94	70
Financing cost	6	(2,118)	(808)
Profit before taxation		9,435	5,086
Tax expense	7	(3,223)	(1,832)
Profit from Operations		6,212	3,254
Other comprehensive income:			
Exchange gains on translation of foreign operations		489	763
Actuarial loss on defined benefit		(63)	–
Total comprehensive income:		6,638	4,017
Profit for the period attributable to:			
Owners of the parent		6,273	3,363
Non-controlling interest		(61)	(109)
		6,212	3,254
Total comprehensive income attributable to:			
Owners of the parent		6,699	4,126
Non-controlling interest		(61)	(109)
		6,638	4,017

Earnings per share		Euro cent	Euro cent
Basic earnings per ordinary share (Euro cent)	9	11.22	6.98
Diluted earnings per ordinary share (Euro cent)	9	10.87	6.87

The notes on pages 43 to 78 form an integral part of these consolidated financial statements.

On Behalf of the Board

Andrew Day
Director
4 April 2017

David Broderick
Director

Consolidated Statement of Financial Position

	Note	Years ended 31 December 2016 €'000	2015 €'000
Non-current assets			
Property, plant and equipment	14	5,498	3,486
Goodwill	12	46,799	23,893
Intangible assets	13	8,696	3,782
Deferred tax assets		880	971
		61,873	32,132
Current assets			
Trade receivables	15	13,879	7,519
Other receivables	16	7,778	8,320
Short-term investments	18	-	27
Cash and cash equivalents	17	17,020	19,018
		38,677	34,884
Total assets		100,550	67,016
Equity			
Share capital	19	654	646
Share capital – To Be Issued		8,792	–
Share premium		19,983	18,542
Merger reserve		22,109	22,109
Foreign exchange reserve		987	498
Treasury shares held in EBT		(1,434)	(804)
Share option reserve		1,305	619
Retained earnings		14,308	10,293
		66,704	51,903
Non-controlling interest		-	(1,309)
Total equity		66,704	50,594
Current Liabilities			
Trade payables		4,822	2,761
Other payables	21	12,431	7,862
Loans and Borrowings	23	8,025	1,163
Corporation tax liabilities		2,552	752
		27,830	12,538
Non-current liabilities			
Other payables	21	1,592	300
Employee Defined Benefit	22	826	590
Loans and Borrowings	23	345	571
Deferred tax liabilities	29	3,253	2,423
		6,016	3,884
Total equity and liabilities		100,550	67,016

The notes on pages 43 to 78 form an integral part of these consolidated financial statements. The financial statements were approved and authorised for issue by the Board on 4 April 2017.

On Behalf of the Board

Andrew Day
Director
4 April 2017

David Broderick
Director

Consolidated Statement of Changes in Equity

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

Consolidated Statement of Cash Flows

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

Company Statement of Financial Position

	Note	Years ended 31 December 2016 €'000	2015 €'000
Non-current assets			
Property, plant and equipment		2	–
Investment in subsidiaries	24	30,659	12,765
Other receivables	16	4,243	3,300
		34,904	16,065
Current assets			
Other receivables	16	22,088	18,093
Cash and cash equivalents	17	946	11,656
		23,034	29,749
Total assets		57,938	45,814
Equity			
Share capital	19	654	646
Share capital – To Be Issued		8,792	–
Share premium		19,983	18,542
Merger reserve – acquisitions		27,792	27,792
Treasury shares held in EBT		(1,434)	(804)
Share option reserve	20	1,305	619
Retained earnings		(8,605)	(2,598)
		48,487	44,197
Current Liabilities			
Trade payables		175	132
Other payables	21	414	1,481
Loans and Borrowings	23	8,000	–
Corporation tax liabilities		2	4
		8,591	1,617
Non-current liabilities			
Other payables	21	860	–
Loans and Borrowings		-	–
Total equity and liabilities		57,938	45,814

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/(loss) after tax dealt with in the parent undertaking is (€5,182k) (2015: loss (€1,576k).

The notes on pages 43 to 78 form an integral part of these financial statements. The financial statements were approved and authorised for issue by the Board on 4 April 2017.

On Behalf of the Board

Andrew Day
Director
4 April 2017

David Broderick
Director

Company Statement of Changes in Equity

	Share capital €'000	Shares to be issued €'000	Share premium €'000	Merger reserve €'000	Treasury shares held in EBT €'000	Share option reserve €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2015	551	–	18,542	10,980	–	227	(317)	29,983
Profit for the period	–	–	–	–	–	–	(1,576)	(1,576)
Total comprehensive income for the year	–	–	–	–	–	–	(1,576)	(1,576)
Contributions by and contributions to the owners:								
Share option expense (note 19)	–	–	–	–	–	392	–	392
Dividends paid (note 10)	–	–	–	–	–	–	(737)	(737)
Dividends received from Subsidiaries	–	–	–	–	–	–	32	32
Shares bought for EBT	–	–	–	–	(804)	–	–	(804)
Shares issued for cash	95	–	–	14,414	–	–	–	14,509
Shares issued upon acquisitions	–	–	–	2,398	–	–	–	2,398
Contributions by and contributions to the owners	95	–	–	16,812	(804)	392	(705)	15,790
Balance at 31 December 2015	646	–	18,542	27,792	(804)	619	(2,598)	44,197
Profit for the period	–	–	–	–	–	–	(5,182)	(5,182)
Total comprehensive income for the year	–	–	–	–	–	–	(5,182)	(5,182)
Contributions by and contributions to the owners:								
Share option expense (note 19)	–	–	–	–	–	686	–	686
Share Options Exercised	–	–	–	–	(632)	–	–	(632)
Dividends paid (note 10)	–	–	–	–	–	–	(825)	(825)
Treasury shares ring fenced for EBT	–	–	–	–	2	–	–	2
Shares issued for cash – Numis Warrants	5	–	643	–	–	–	–	648
Shares issued upon acquisition – Volta Creation Inc	1	–	169	–	–	–	–	170
Shares to be issued (Synthesis Acquisition)	–	6,906	–	–	–	–	–	6,906
Shares to be issued (Mindwalk Acquisition)	–	1,886	–	–	–	–	–	1,886
Acquisition of Kite Team Final 50%	1	–	149	–	–	–	–	150
Keywords France Incorporation	–	–	–	–	–	–	–	–
Shares issued upon acquisition – Player Research Ltd	1	–	331	–	–	–	–	332
Shares issued upon acquisition – Sonox Audio Solutions SL	–	–	149	–	–	–	–	149
Contributions by and contributions to the owners	8	8,792	1,441	–	(630)	686	(825)	9,472
Balance at 31 December 2016	654	8,792	19,983	27,792	(1,434)	1,305	(8,605)	48,487

Company Statement of Cash Flows

	Note	Years ended 31 December 2016 €'000	2015 €'000
Cash flows from operating activities			
Profit/(loss) after tax		(5,182)	(1,575)
Income and expenses not affecting operating cash flows			
Income tax expense		4	4
Share option expense		145	392
Loss on payment of deferred consideration		264	194
Interest Income		(17)	(20)
Share issuance costs		-	14
Interest expense		82	–
		478	584
Changes in operating assets and liabilities			
(Increase)/Decrease in other receivables		4,199	98
Increase/(Decrease) in trade and other payables		(304)	38
		3,895	136
Income taxes paid/(refunded)		(4)	(4)
Net cash provided by operating activities		(813)	(859)
Cash flows from investing activities			
Acquisition of subsidiaries		(18,030)	(897)
Acquisition/disposal of property, plant and equipment		(2)	–
Interest received		17	20
EBT share purchase		2	(804)
Dividends received from Subsidiaries		-	33
Net cash used in investing activities		(18,013)	(1,648)
Cash flows from financing activities			
Loan to finance acquisitions		8,000	–
Dividends paid	10	(825)	(737)
Shares issued		1,449	14,213
Share issuance expenses		-	(14)
Share Options Exercised		(494)	–
Interest paid		(14)	–
Net cash used in financing activities		8,116	13,462
(Decrease)/Increase in cash and cash equivalents		(10,710)	10,955
Cash and cash equivalents at beginning of the period		11,656	701
Cash and cash equivalents at end of period		946	11,656

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 2016. 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 have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs").

New Standards, Interpretations and Amendments Effective from 1 January 2016

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

New Standards, Interpretations and Amendments not yet Effective

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

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

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

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

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

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

2 Significant accounting policies

Basis of Consolidation

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

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

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

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

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

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

Business Combinations

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

2 Significant accounting policies continued

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

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

Goodwill

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

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

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

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

Intangible Assets

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

Impairment

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

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

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

Foreign Currency

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Significant accounting policies continued

Property, Plant and Equipment

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

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

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

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

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

Financial Assets

Loans and Receivables

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

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

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

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

Share Capital

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

Financial Liabilities

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

Leased Assets

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

Finance Leases

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

Employee Benefit Trust

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

3 Critical accounting estimates and judgements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

	2016 €'000	2015 €'000
Ireland	25,570	14,167
Japan	4,886	3,324
Italy	7,269	8,343
Canada	22,053	17,438
United States	5,250	6,573
India	4,591	3,602
Singapore	4,787	3,083
United Kingdom	1,276	650
Brazil	619	465
Spain	2,167	306
Switzerland	17,838	–
Germany	163	–
Others	116	–
Total revenues	96,585	57,951

Geographical Analysis of Non-current Assets from Continuing Businesses

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

5 Operating Profit

Operating profit is stated after charging:

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

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

	2016 €'000	2015 €'000
Auditors' remuneration		
Audit services		
Parent company and Group audit	115	48
Subsidiary companies audit	111	95
Non-audit services		
Accounting services	-	–
Taxation compliance	52	12
Due diligence services	-	–
	278	155

6 Financing income and costs

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

7 Taxation

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

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

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

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

9 Earnings per share

	2016 Euro cent	2015 Euro cent
Basic	11.22	6.98
Diluted	10.87	6.87

	€'000	€'000
Profit for the period from continuing operations	6,273	3,363

	Number	Number
Denominator (weighted average number of equity shares)		
Basic	55,918,481	48,192,371
Diluted	57,716,435	48,971,278

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

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

10 Dividends

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

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

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

In May 2016, Keywords Studios plc approved a dividend in respect of the financial year ended 31 December 2015 of Stg 0.81p/€1.034 per Ordinary share, or €561,000 in total, as a final dividend for 2015. The dividend was paid in June 2016.

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

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

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

11 Staff Costs

Total staff costs (including Directors) comprise the following:

Group

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

Company

	2016 €'000	2015 €'000
Salaries and related costs	1,010	852
Share based payment costs	145	392
	1,155	1,244

Key management compensation:

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

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

The breakdown of Directors' remuneration for the Company is included in the Directors' Remuneration Report on page 31.

Group

	2016	2015
Average number of employees		
Operations	1,688	1,169
General and administration	130	104
	1,818	1,273

Company

	2016	2015
Average number of employees		
Directors	5	5
General & Administration	2	2
	7	7

12 Goodwill

Group

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

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

12 Goodwill continued

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

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

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

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

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

13 Intangible Assets – customer relationships

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

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

14 Property, plant and equipment
Group

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

15 Trade Receivables
Group

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

16 Other Receivables

Group

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

Company Short Term

	2016 €'000	2015 €'000
Intercompany Receivables (note 25)	21,398	17,299
Accrued Income	24	35
Prepayments	81	58
Other receivables	585	356
Restricted cash (note 25)	–	345
	22,088	18,093

Company Long Term

	2016 €'000	2015 €'000
Intercompany Receivable	4,243	3,300
	4,243	3,300

17 Cash and cash equivalents

Group

	As of 31 December 2016 €'000	2015 €'000
Cash at bank	17,020	19,018
Short term bank deposits	–	–
	17,020	19,018

Company

	2016 €'000	2015 €'000
Cash at bank	946	11,656
Short term bank deposits	–	–
	946	11,656

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

18 Short term investments

Group

	As of 31 December	
	2016 €'000	2015 €'000
Medium term bank deposits	–	27
	–	27

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

19 Shareholder's Equity

Share Capital

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

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

On 28 July, 2016 the Group issued 45,192 of 1p shares at a value of 321p (€4.21) which formed the part of the consideration for the acquisition of Volta.

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

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

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

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

Shares held by the Employee Benefit Trust (EBT)

	2016		2015	
	Number	€'000	Number	€'000
Ordinary Shares held by the EBT	399,026	802	400,000	804

19 Shareholder's Equity continued

Reserves

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

Reserve	Description and purpose
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.
Foreign Exchange Reserve	Gains or losses arising on retranslation of the net assets of the overseas operations into euro.
Share premium	The Share Premium account is the amount received for shares issued in excess of their nominal value, net of share issuance costs.
Share option reserve	The Share option reserve is the credit arising on share based payment charges in relation to the Company's share option schemes.
Shares to be issued	For deferred consideration which is to be provided for by the issue of a fixed number of shares at a future defined date, where there is no obligation on Keywords to offer a variable number of shares, the deferred consideration is to be classified as an Equity Arrangement and the value of the shares is fixed at the date of the acquisition.
Merger reserve	The merger reserve was initially created following the Group reconstruction, when Keywords Studios plc acquired the Keywords International Limited Group of companies. When the Group uses Keywords Studios plc shares as the 100% consideration for the acquisition of an entity, the value of the shares in excess of the nominal value, net of share issuance costs are now also recorded within this reserve, in line with S612 of the 2006 UK Companies Act.
Non-Controlling Interest Reserve	The non-controlling interest reserve represents the share of net assets/(liabilities) at the reporting date which is attributable to the holders of the non-controlling interest.

20 Share Options

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

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

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

Share Option Scheme

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

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

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

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

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

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

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

Share Options granted in 2013

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

Share Options granted in 2015

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

Share Options granted in 2016

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

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

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

Long-term incentive plan scheme

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

20 Share Options continued

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

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

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

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

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

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

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

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

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

LTIPS granted in 2013

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

LTIPS granted in 2014

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

LTIPS granted in January 2015

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

LTIPS granted in June 2015

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

LTIPS granted in May 2016

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

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

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

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

21 Other payables

Group

	As of 31 December	
	2016 €'000	2015 €'000
Current		
Accrued expenses	7,702	3,268
Payroll Taxes	542	482
Other payables	3,927	2,124
Contingent Consideration	251	1,979
Related party payable (note 25)	9	9
	12,431	7,862
Non-current		
Other payables	113	55
Contingent Consideration	1,479	245
	1,592	300

Company

	2016 €'000	2015 €'000
Current		
Intercompany Payable	70	
Accrued expenses	324	368
Payroll Taxes	20	38
Other payables	-	340
Contingent Consideration	-	735
	414	1,481
Non-current		
Other payables	-	–
Contingent Consideration	860	–
	860	–

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

22 Employee Defined Benefit Plan

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

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

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

Group

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

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

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

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

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

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

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

Assumptions underlying the Actuarial Valuations and Sensitivities of the Assumptions
For the actuarial valuations the following demographic and economic & financial assumptions were applied:

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

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

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

	2016 €'000
Actuarial Losses	
Change due to Experience	32
Change due to Demographical assumption	5
Change due to Financial assumption	30
Actuarial Losses	67
Interest Rate Sensitivities	
-0.50%	882
0.50%	776
Mortality Rate Sensitivities	
-0.025%	827
0.025%	782
Staff Turn Over Rate Sensitivities	
-0.50%	835
0.50%	818
Staff Salary Increases Rate Sensitivities	
-0.50%	808
0.50%	845

23 Loans and borrowings
Group

	2016 €'000	2015 €'000
Expiry within 1 Year	8,025	1,163
Expiry between 1 Year and 2 Years	55	350
Expiry over 2 Years	290	221
	8,370	1,734

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

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

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

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

23 Loans and borrowings continued

The currencies of these loans are as follows;

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

Company

	2016 €'000	2015 €'000
Expiry within 1 Year	8,000	–
Expiry between 1 Year and 2 Years	-	–
Expiry over 2 Years	-	–
	8,000	–

	2016 €'000	2015 €'000
Euro	8,000	–
Canadian Dollars		–
	8,000	–

24 Investment in subsidiaries

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

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

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

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

25 Related parties and shareholders

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

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

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

The following are year-end balances:

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

25 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.

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

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

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

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

26 Financial instruments and risk management

Interest rate risk

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

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

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

Credit Risk

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

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

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

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

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

Group

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

The above balances relate to customers with no default history.

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

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

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

Company
Intercompany receivables of €20,454,923 were not past due at 31 December 2016 (2015: €20,598,567).

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

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

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

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

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

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

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

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

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

Group

Year ended 31 December 2016	Total €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'000
Trade payables	4,822	4,822	-	-
Contingent Consideration	1,730	251	1,479	
Employee Defined Benefit	826	-	-	826
Other accounts payable	12,293	12,180	113	-

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

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

26 Financial instruments and risk management continued

Company

Year ended 31 December 2016	Total €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'000
Trade payables	175	175	–	–
Contingent Consideration	860	–	860	–
Other accounts payable	414	414	–	–

Year ended 31 December 2015	Total €'000	Within 1 year €'000	1–2 years €'000	2–5 years €'000
Trade payables	132	132	–	–
Contingent Consideration	735	735	–	–
Other accounts payable	746	1,481	–	–

27 Operating lease commitments

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

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

Group

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

28 Finance lease commitments

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

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

Group

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

29 Deferred tax

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

	Asset 2016 €'000	Liability 2016 €'000	Net 2016 €'000	(Charged)/credited to profit or loss 2016 €'000
Accelerated capital allowances	-	9	(9)	4
Personal severance indemnity	109	-	109	100
Available losses	44	-	44	(243)
Rent – free inducement	-	116	(116)	(66)
Fixed asset excess of tax over accounting	173	3	170	42
Deferred tax related to Multi Media Tax Credits	5	796	(791)	501
Other temporary and deductible differences	300	19	281	(88)
Deferred Tax arising on intangibles	249	2,310	(2,061)	459
Net tax assets/(liabilities)	880	3,253	(2,373)	709

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

30 Non-controlling interest

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

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

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

31 Acquisitions completed in the current year

Acquisition of Ankama Asia Pte Ltd.

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

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

Ankama Asia Pte

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

Satisfied by:	
Cash	296
Less: cash and cash equivalent balances transferred	(120)
	176

31 Acquisitions completed in the current year continued

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

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

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

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

Acquisition of Synthesis Group

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

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

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

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

Synthesis Group

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

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

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

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

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

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

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

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

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

Mindwalk

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

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

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

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

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

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

31 Acquisitions completed in the current year continued

Acquisition of Volta Création Inc.

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

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

Volta

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Fixtures, Fittings & Equipment	74	–	74
Identifiable intangible assets – customer relationships	–	761	761
Trade and other receivable	513	–	513
Cash and cash equivalents	(31)	–	(31)
Trade and other Payables	(322)	–	(322)
Deferred tax liabilities	–	(202)	(202)
Total identifiable assets	234	559	793
Goodwill			2,701
Total consideration			3,494
Satisfied by:			
Cash			3,324
Equity Instruments (45,192 shares of the parent company)			170
			3,494
Net cash outflow arising on acquisition			
Cash			3,324
Less: cash and cash equivalent balances transferred			31
			3,355

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

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

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

Acquisition of Player Research Ltd

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

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

Player Research

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

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

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

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

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

31 Acquisitions completed in the current year continued

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

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

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

Enzyme

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

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

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

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

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

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

Sonox

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Fixtures, Fittings & Equipment	2	–	2
Identifiable intangible assets – customer relationships	–	–	–
Trade and other receivable	268	–	268
Cash and cash equivalents	177	–	177
Trade and other Payables	(411)	–	(411)
Deferred tax liabilities	–	–	–
Total identifiable assets	36	–	36
Goodwill			614
Total consideration			650
Satisfied by:			
Cash			500
Equity Instruments (24,881 shares of the parent company)			150
			650
Net cash outflow arising on acquisition			
Cash			500
Less: cash and cash equivalent balances transferred			(177)
			323

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

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

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

32 Business combinations completed in 2015

Acquisition of Alchemic Dream Inc.

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

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

Alchemic Dream

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

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

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

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

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

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

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

Reverb Localização – Preparação de Documentos Ltda

	Book Value €'000	Fair Value Adjustment €'000	Fair Value €'000
Financial Assets			
Trade and other receivable	14	–	14
Cash and cash equivalents	12	–	12
Total identifiable assets	26	–	26
Goodwill			274
Total consideration			300
Satisfied by:			
Cash			200
Deferred consideration			100
Total consideration transferred			300
Net cash outflow arising on acquisition			
Cash consideration			200
Less: cash and cash equivalent balances transferred			(12)
			188

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

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

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

32 Business combinations completed in 2015 continued

Acquisition of Kite Team

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

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

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

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

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

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

Kite Team

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

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

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

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

Acquisition of Liquid Development LLC

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

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

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

Liquid Development LLC

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

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

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

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

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

33 Events after the reporting date

Acquisition of Spov Ltd

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

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

The book value acquired of net assets is as follows:

	€'000
Financial Assets & Liabilities	
Fixed Assets	30
Trade Receivables	16
Trade Payables	(120)
Overdraft	(18)
Net Liabilities	(93)
Goodwill	1,450
Total Consideration	1,357
Satisfied by	
Cash	351
Deferred Consideration	1,006
Net Cash outflow arising on acquisition	
Cash	351
Overdraft	18
	369

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

Notes

Notes

Company Information

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