13 September 2016

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

**Half year results for the six months to 30 June 2016**

Keywords Studios, the international technical services provider to the global video games industry, today provides its half year results for the six months to 30 June 2016.

**Financial overview:**

- Revenue, including contribution from acquisitions, increased by 77% to €42.4m (H1 2015: €23.9m)
- Adjusted profit before tax* up 177% to €6.0m (H1 2015: €2.2m)
- Adjusted earnings per share* up 99% to 8.55c (H1 2015: 4.29c)
- Net cash of €3.5m (H1 2015: €6.1m) after €13.7m of acquisition cash consideration and costs
- 10% increase in interim dividend to 0.44p per share (2015: 0.40p)

* *before acquisition and integration expenses of €0.7m (H1 2015: €0.7m), share option charges of €0.3m (H1 2015: €0.1m), amortisation of intangibles of €0.6m (H1 2015: €0.4m) and foreign currency loss of €1.8m (H1 2015: €0.6m gain)*

**Operational overview:**

- 30% increase in like for like** revenue includes exceptional second quarter performance by Synthesis
- Continued to invest in the development of the Group:
  - Acquisition of leading localisation, audio and localisation testing business, Synthesis, in April
  - Acquisition of China-based outsourced art creation firm Mindwalk completed in May
  - Acquisition of Philippines-based customer support team from Ankama in March
  - Acquisition of remaining 50% in Spanish and Latin American audio and localisation firm, Kite Team in April
  - Further strengthened senior management team with three key appointments
- Five year revolving credit facility of up to €15m with Barclays Bank Plc secured
- 18% increase in clients using three or more services from 51 to 60***

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

**Current trading and outlook:**

- Acquisition of Quebec City-based Volta in July 2016, has extended Group services into Concept Art
- Trading in the first two months of the second half has been in line with the Board's expectations. The particularly strong first half leaves the Board confident in delivering market expectations for the full year
- Selectively reviewing a strong acquisition pipeline

**Andrew Day, Chief Executive of Keywords Studios, commented:**

"The Group has delivered a first half performance comfortably ahead of our expectations, driven by good organic growth, but also substantially complemented by acquisitions which have further extended our service offering, market penetration and geographic reach.

"The Group's strong trading in the first eight months of the year means that we do not expect this year to be characterised by the typical weighting towards the second half. This performance gives us increased confidence in delivering against our expectations for the full year.

"We look forward to continuing to develop the business both organically, by extending relationships with many of our existing major games clients, and by acquisition, as we continue to review selective opportunities that could further extend our service offering or market penetration."

*A presentation of the half rear results will be made to analysts later this morning at MHP's offices. To register to attend, please contact Ollie Hoare at MHP Communications on 020 3128 8771.*


**For further information, please contact:**

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**Notes to Editors**

Keywords Studios is an international technical services provider to the global video games industry. Established in 1998, it provides integrated art creation, audio, testing, localisation, testing, and customer support services across the games lifecycle in over 50 languages and all games platforms to a blue chip client base in more than 15 countries. Keywords Studios now has 23 facilities across Europe, North and South America and Asia. It has a strong market position, providing services to 21 of the top 25 games companies by revenue including Microsoft, Namco Bandai, Sony, Konami, Electronic Arts, Nintendo and Square Enix) and 7 of the top 10 mobile game companies by revenue (including Supercell, King and Machine Zone). Keywords Studios is listed on AIM, the London Stock Exchange regulated market (KWS.L). For further information, please visit: www.keywordsstudios.com

**Introduction**

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

Like for like revenues increased by 30% including a strong second quarter performance at newly acquired Synthesis due in large part to a phasing of revenues favouring the first half of the year. Excluding Synthesis, like for like revenue growth in the period was 21%.

During the first half, 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 the remaining 50% of audio and localisation firm, Kite Team; established the group as the global leader in localisation and voice-over recording through the acquisition of Synthesis; and acquired China-based firm, Mindwalk, 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.

With Virtual and Augmented Reality gaming debuting in 2016, we have been working across all the VR platforms providing art, audio, QA, and localisation services for a range of the early concept VR game releases as well as for Augmented Reality. Goldman Sachs released a market forecast of the VR and AR software market covering games and non-games sectors indicating the total market will grow to $35bn by 2025 (Source: Goldman Sachs' Virtual and Augmented Reality research note, January 2016).

**Financial overview**

Group revenues increased by 77% to €42.4m (H1 2015: €23.9m). The increase was driven by an exceptional second quarter from the newly acquired Synthesis, coupled with the addition of Mindwalk and Ankama and strong like for like growth across most of our service lines. The period has been particularly strong as the number of major projects which have fallen in the first half of the year has been greater than in previous years, which we anticipate will result in the Group as a whole having a different seasonality profile this year from previous years.

The gross profit margin of 35.1% (H1 2015: 34.4%) was up on last year driven by high levels of activity across the Group, particularly in Synthesis in the second quarter.

Operating expenses increased in the first half of the year to €8.8m (H1 2015: €6.0m) reflecting the costs of the acquired entities. As a proportion of sales, operating expenses decreased to 20.8% (H1 2015: 24.9%), with the benefit of group management and support costs being spread across a larger revenue base. Cost controls remain strong across the Group's studios.

One-off costs of acquiring and integrating the newly acquired companies of €0.7m (H1 2015: €0.7m) were incurred in the period. Included in net finance costs is a foreign exchange loss of €1.8m (H1 2015: €0.6m gain) in the first half of the current year which is largely due to exchange rate losses on cash deposits and inter-company loans.

Adjusted profit before tax and acquisition-related costs, share option charges, amortisation of intangibles and foreign currency movements for the first half of the current financial year was €6.0m (H1 2015: €2.2m). After these items, the Group reported a profit before tax for the period of €2.6m (H1 2015: €1.6m).

The estimated tax charge in the period is €1.3m (H1 2015: €0.1m) which represents an effective tax rate of 21.4% which is a small reduction on the rate for 2015 (FY 2015: 22.9%).

Adjusted basic earnings per share (before tax and acquisition-related costs, share option charges, amortisation of intangibles and foreign currency movements) were 8.55c (H1 2015: 4.29c). Basic earnings per share from continuing operations were 2.42c (H1 2015: 3.02c), primarily reflecting a €2.4m negative movement in foreign exchange.

A combination of the exceptional trading in the second quarter and the Group entering a traditionally busy third quarter, where the Group has its maximum cash requirement for the year, has led to a net inflow of cash from operations of €0.6m (H1 2015: outflow of €0.6m). In the period, the Group made three acquisitions and acquired the remaining 50% of the share capital of Kite Team which led to a net cash outflow on consideration of €13.0m (H1 2015: €1.0m) and an additional €0.7m (H1 2015: €0.7m) in acquisition and integration costs. To help fund these and future acquisitions the Group agreed a secured credit facility with Barclays of up to €15m over a five-year period. The facility can also be used to fund working capital and at the end of the period the amount drawn down was €4m. All loans in place at the end of 2015, a total of €1.7m, were repaid in the period. Investment in fixed assets amounted to €1.3m (H1 2015: €0.8m) reflecting in particular the cost of increasing capacity of the Montreal Studio and a continued refresh of IT equipment.

**Operational review**

Following acquisitions during the first half and prior periods, Keywords is a geographically diversified business with a well balanced portfolio of services. As at 30 June 2016 Art Creation services represented 16% of group revenues, Audio Services represented 22%, Localisation services represented 33%, Functional Testing represented 8%, Localisation Testing represented 16% and Customer Support services represented 6% of group revenues.

***Art Creation***

Our Art Creation service line produces graphical art assets for inclusion in video games including 2D and 3D art asset production and animation, as well as concept art following the acquisition of Volta in July 2016.

Art Creation revenues grew by 140% to €6.7m (H1 2015: €2.8m) with the benefit of contributions from Liquid Development, which was acquired in August 2015, and Mindwalk, which was acquired at the end of May 2016. On a like for like basis, Art Creation grew sales by 5% on very strong comparatives, with a higher proportion of our activity made up of smaller, earlier stage or proof of concept projects during the period including a number of Virtual Reality projects.

***Audio Services***

Our Audio service line provides multi language voice-over, original language voice recording and related services.

Audio revenue grew by 297% in the period to €9.1m (H1 2015: €2.3m) significantly driven by the acquisition of Synthesis in April 2016 which positioned the Group as global leader in Audio services. On a like for like basis, revenues grew by 98% reflecting an exceptionally strong performance from Synthesis which, in addition to delivering its normal flow of audio projects, managed some very large new audio projects in the second quarter leading to a peak production period earlier in the year than is typical. Excluding Synthesis, like for like revenue growth in Audio was 79% reflecting the favourable H1 2015 comparator as well as good underlying growth.

***Localisation***

Our Localisation service line provides translation of in-game text, audio scripts, cultural, and local adaptation, accreditation, packaging and marketing materials.

The Localisation activities have had a strong first half, growing revenues by 79% to €14.0m (H1 2015: €7.8m) reflecting the contributions from the acquisitions of Kite Team in July 2015 and Synthesis, in April 2016. On a like for like basis, Localisation revenues have grown by 42% driven by greater demand for more languages for mobile games and a strong performance from Synthesis. Excluding Synthesis, like for like sales grew by 38% as this service line continued its very strong growth.

***Functional Testing***

Our Functional Testing service line provides quality assurance including the discovery and documentation of game defects and testing to verify the game's compliance with console manufacturers' specifications.

Functional testing revenues increased by 30% to €3.2m (H1 2015: €2.5m). This strong performance reflects good demand from existing customers including Oculus, some new client wins to this service such as Ubisoft, and improved levels of demand for our Indian studio. With the majority of Functional Testing still performed in-house by our clients we continue to explore ways to increase the weighting of this service within the overall portfolio of services through outsourcing arrangements and acquisitions.

***Localisation Testing***

Our Localisation Testing service line identifies out of context translations, truncations, overlaps, spelling, grammar, age rating issues, cultural issues and tests for console manufacturer compliance requirements in over 30 languages using native speakers.

As planned, the Group's historic reliance on Localisation Testing continued to reduce such that it accounted for only 16% (H1 2015: 29%) of Group revenues during the first half, albeit Keywords remains the largest provider in the market. Sales increased by 2% to €6.9m (H1 2015: €6.8m), which included a small contribution from Synthesis. On a like for like basis this represented a 4% decline due to strong comparatives in the first half of 2015 when we reported higher than normal levels of activity in the first quarter. Excluding Synthesis, revenues declined by 8%. We typically expect localisation testing to see a higher level of activity in the second half of the year and are encouraged by current volumes and a good pipeline of activity.

***Customer Support***

Our Customer Support service line provides multi-lingual, cost effective and flexible customer care services including managing communities of gamers across all forms of social media, within the games themselves and on the official game forums.

Initially established through the acquisition of Alchemic Dream in January 2015, the outsourcing agreement with Ankama in March 2016 extended the offering further, including into live operations support, promotions and fraud management. Customer Support sales increased by 41% to €2.4m in the first half (H1 2015: €1.7m) including the contribution of Ankama. On a like for like basis, Customer Support grew by 16%, reflecting good development of the business despite this being a transitional year in which we focused on strengthening the service line through a combination of using existing studios and resources and investing in growth. For instance, the Manila based customer support team acquired from Ankama is moving to larger, newly fitted out offices and is expanding to deliver services to additional clients. We anticipate good growth in Customer Support services as the model evolves to replicate the successes we are seeing in certain geographies such as Japan, and we are using existing recruitment channels to find extra resource to meet anticipated demand.

**Dividends**

The Board is pleased to announce a 10% increase in its interim dividend payment, in line with its progressive dividend policy. The interim dividend of 0.44p per share will be paid on 28 October 2016 to shareholders on the register on 7 October 2016, with an ex-dividend date of 6 October 2016. The interim dividend payment will absorb approximately €0.3m of cash resources.

**Strategy**

We have made strong progress in delivering on our strategy to grow Keywords Studios both organically and by selective acquisition in order 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 services industry.

We are particularly pleased to have further developed our newer, Art Creation and Customer Support service lines and to have achieved greater scale in Audio Service, which is now a global leader in its field.

Today, we have a better balanced business across the six service lines and are able to support video game developers and publishers from the very early concept stages through to the post launch, live operations phase, which is in line with our aim to be the leading scale provider of services at all stages in the games lifecycle to our global customer base.

Recent investments in senior management with the appointment of a Group IT Director, a Chief Customer Officer and the promotion to lead our Art services business, have further strengthened the management team to facilitate integration efforts and support continued organic and acquisition led growth.

The Board believes that there is a clear opportunity for Keywords to continue to extend its existing relationships with many of the major games companies both through providing additional services to existing customers and through providing dedicated outsourced services. We maintain a strong acquisition pipeline and continue to review selective acquisitions opportunities that could further extend our service offering or market penetration.

**Current trading and outlook**

Trading in the first two months of the second half has been in line with the Board's expectations.

2016 has been marked by the anticipated arrival of Virtual Reality and Augmented Reality with much work being conducted in the games industry on early stage content for the VR devices that have already launched and are to be launched this year. Already providing art, audio, translation, functional and localisation testing for multiple VR and AR games, we fully expect demand driven from VR and AR to grow strongly over time as this form of entertainment and learning gains traction globally.

We are also seeing a rapid progression in mobile games both in terms of richer content – larger scale games, increased use of audio within the games and higher production value art with 3D graphics in particular – and games being launched into a wider number of territories, requiring more languages and, therefore, localisation. These trends play to our strength in HD games and managing multiple-language launches, traditionally for console and PC platforms.

There has been a noticeable increase in demand in the second half of 2016 for our art businesses, which we are expecting to finish the year strongly. Furthermore, the inclusion of concept art within our portfolio of art services is already bearing fruit as, following the acquisition of Volta in August we are already seeing earlier stage opportunities to engage with clients for art asset production from our Lakshya, Liquid Development, and Mindwalk studios following the provision of concept art by Volta.

Our Audio service line, which was previously flagged as being underweight in our portfolio has been transformed with the acquisition of Synthesis and is now a world leader. We continue to see opportunities for further development of this service by strengthening our position in certain key territories and building upon our original language audio voice production capabilities. Longer term, we expect demand for audio to grow with VR games making greater use of audio to guide players in the game – something that in non VR based games is typically done through the use of text prompts.

Thanks to the global nature of the business' earnings, and the fact that only 3% of revenues are denominated in sterling, the Group has not seen and does not expect any operational impact following the UK referendum vote.

Having delivered a first half performance substantially ahead of our expectations due the phasing of revenues favouring the first half, we do not expect this year to be characterised by the typical weighting towards the second half. Nevertheless, the Group's strong performance in the first eight months of the year gives us confidence in delivering against our expectations for the full year.

# Interim consolidated statement of comprehensive income

| | Note | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|---|
| Revenues | 4 | 42,410 | 23,908 | 57,951 |
| | | | | |
| Operating costs | | (28,244) | (16,183) | (37,460) |
| Multimedia tax credits | | 734 | 487 | 1,287 |
| Gross profit | | 14,900 | 8,212 | 21,778 |
| | | | | |
| Share option expense | 14 | (284) | (136) | (392) |
| Costs of acquisition and integration | | (702) | (696) | (1,089) |
| Amortisation of intangible assets | | (615) | (384) | (857) |
| Other administration expenses | | (8,802) | (5,959) | (13,616) |
| | | | | |
| Administrative expenses | | (10,403) | (7,174) | (15,954) |
| Operating profit | | 4,497 | 1,038 | 5,824 |
| | | | | |
| Financing income | 6 | 52 | 658 | 70 |
| Financing cost | 6 | (1,941) | (142) | (808) |
| Profit before taxation | | 2,608 | 1,555 | 5,086 |
| Tax expense | 7 | (1,280) | (126) | (1,832) |
| Profit from Operations | | 1,328 | 1,429 | 3,254 |
| | | | | |
| Other comprehensive income: | | | | |
| Exchange gains on translation of foreign operations | | 332 | 1,034 | 764 |
| | | | | |
| Total comprehensive income: | | 1,660 | 2,463 | 4,018 |
| | | | | |
| Profit for the period attributable to: | | | | |
| Owners of the parent | | 1,328 | 1,428 | 3,363 |
| Non-controlling interest | | - | - | (109) |
| | | 1,328 | 1,428 | 3,254 |
| | | | | |
| Total comprehensive income attributable to: | | | | |
| Owners of the parent | | 1,660 | 2,463 | 4,126 |
| Non-controlling interest | | - | - | (109) |
| | | 1,660 | 2,463 | 4,017 |
| | | | | |
| **Earnings per share** | | Euro cent | Euro cent | Euro cent |
| Basic earnings per ordinary share (Euro cent) | 9 | 2.42 | 3.02 | 6.98 |
| Diluted earnings per ordinary share (Euro cent) | 9 | 2.36 | 2.99 | 6.87 |

The notes on pages 12 to 32 form an integral part of these consolidated financial statements.

# Interim consolidated statement of financial position

| | Note | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | 4,350 | 3,014 | 3,486 |
| Goodwill | 11 | 41,471 | 16,488 | 23,893 |
| Intangible assets | 12 | 6,991 | 3,019 | 3,782 |
| Deferred tax assets | | 845 | 1,460 | 971 |
| | | 53,657 | 23,981 | 32,132 |
| **Current assets** | | | | |
| Trade receivables | | 17,733 | 8,452 | 7,519 |
| Other receivables | | 8,271 | 6,622 | 8,320 |
| Short-term investments | | 314 | 1,418 | 27 |
| Cash and cash equivalents | | 7,547 | 6,139 | 19,018 |
| | | 33,865 | 22,631 | 34,884 |
| **Total assets** | | **87,522** | **46,612** | **67,016** |
| **Equity** | | | | |
| Share capital | 10 | 647 | 553 | 646 |
| Share capital - To Be Issued | | 8,792 | - | - |
| Share premium | | 18,691 | 18,542 | 18,542 |
| Merger reserve - restructuring | | (370) | (370) | (370) |
| Merger reserve - acquisitions | | 21,170 | 5,947 | 22,479 |
| Foreign exchange reserve | | 830 | 769 | 498 |
| Treasury shares held for EBT | | (804) | (804) | (804) |
| Share option reserve | | 903 | 363 | 619 |
| Retained earnings | | 11,064 | 8,613 | 10,293 |
| | | 60,923 | 33,613 | 51,903 |
| Non-controlling interest | | - | - | (1,309) |
| **Total equity** | | 60,923 | 33,613 | 50,594 |
| **Current Liabilities** | | | | |
| Trade payables | | 4,420 | 2,109 | 2,761 |
| Other payables | | 12,607 | 7,783 | 8,452 |
| Loans and Borrowings | 13 | 4,000 | - | 1,163 |
| Corporation tax liabilities | | 1,370 | 32 | 752 |
| | | 22,397 | 9,924 | 13,128 |
| **Non-current liabilities** | | | | |
| Other payables | | 1,380 | 1,219 | 300 |
| Loans and Borrowings | | - | - | 571 |
| Deferred tax liabilities | | 2,822 | 1,856 | 2,423 |
| | | 4,202 | 3,075 | 3,294 |
| **Total equity and liabilities** | | **87,522** | **46,612** | **67,016** |

The notes on pages 12 to 32 form an integral part of these consolidated financial statement

## Interim consolidated statement of changes in equity

| | Share capital €'000 | Shares to be issued €'000 | Share premium €'000 | Merger reserve restructuring €'000 | Merger reserve acquisitions €'000 | Foreign exchange reserve €'000 | Treasury shares held for 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** | **(370)** | **5,667** | **(265)** | **-** | **227** | **7,667** | **32,019** | **-** | **32,019** |
| Profit for the period | - | - | - | - | - | - | - | - | 1,428 | 1,428 | - | 1,428 |
| Other comprehensive income | - | - | - | - | - | 1,034 | - | - | - | 1,034 | - | 1,034 |
| Share option expense (note 13) | - | - | - | - | - | - | - | 136 | - | 136 | - | 136 |
| Dividends paid (note 8) | - | - | - | - | - | - | - | - | (482) | (482) | - | (482) |
| Treasury shares ringfenced for EBT | - | - | - | - | - | - | (804) | - | - | (804) | - | (804) |
| Shares issued for cash (note 10) | 2 | - | - | - | 280 | - | - | - | - | 282 | - | 282 |
| Shares issued upon acquisitions | - | - | - | - | - | - | - | - | - | - | - | - |
| Merger reserve arising on group acquisitions | - | - | - | - | - | - | - | - | - | - | - | - |
| | | | | | | | - | | | | | |
| **Balance at 30 June 2015** | **553** | **-** | **18,542** | **(370)** | **5,947** | **769** | **(804)** | **363** | **8,613** | **33,613** | **-** | **33,613** |
| Profit for the period | - | - | - | - | - | - | - | - | 1,934 | 1,934 | (109) | 1,825 |
| Other comprehensive income | - | - | - | - | - | (271) | - | - | - | (271) | - | (271) |
| Share option expense (note 13) | - | - | - | - | - | - | - | 256 | - | 256 | - | 256 |
| Dividends paid (note 8) | - | - | - | - | - | - | - | - | (254) | (254) | - | (254) |
| Treasury shares ringfenced for EBT | - | - | - | - | - | - | (0) | - | - | (0) | - | (0) |
| Shares issued for cash (note 10) | 76 | - | - | - | 13,838 | - | - | - | - | 13,914 | - | 13,914 |
| Shares issued upon acquisition | 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) |
| **Balance at 31 December 2015** | **646** | **-** | **18,542** | **(370)** | **22,479** | **498** | **(804)** | **619** | **10,293** | **51,903** | **(1,309)** | **50,594** |
| Profit for the period | - | - | - | - | - | - | - | - | 1,328 | 1,328 | - | 1,328 |
| Other comprehensive income | - | - | - | - | - | 332 | - | - | - | 332 | - | 332 |
| Share option expense (note 13) | - | - | - | - | - | - | - | 284 | - | 284 | - | 284 |
| Dividends paid (note 8) | - | - | - | - | - | - | - | - | (557) | (557) | - | (557) |
| Treasury shares ringfenced for EBT | - | - | - | - | - | - | - | - | - | - | - | - |
| Shares issued for cash (note 10) | - | - | - | - | - | - | - | - | - | - | - | - |
| Shares to be issued (Synthesis Acquisition) (Note 15) | - | 6,906 | - | - | - | - | - | - | - | 6,906 | - | 6,906 |
| Shares to be issued (Mindwalk Acquisition) (Note 15) | - | 1,886 | - | - | - | - | - | - | - | 1,886 | - | 1,886 |
| Acquisition of Kite Team Final 50% Note 16 | 1 | - | 149 | - | (1,309) | - | - | - | - | (1,159) | 1,309 | 150 |
| | | | | | | | - | | | | | |
| **Balance at 30 June 2016** | **647** | **8,792** | **18,691** | **(370)** | **21,170** | **830** | **(804)** | **903** | **11,064** | **60,923** | **-** | **60,923** |

# Interim consolidated statement of cash flows

| | Note | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit/(loss) after tax | | 1,328 | 1,428 | 3,254 |
| Adjustments to reconcile net income to net cash provided by operating activities | | 324 | (1,069) | 1,514 |
| Income taxes paid | | (1,007) | (909) | (1,362) |
| **Net cash provided by operating activities** | | **645** | **(550)** | **3,406** |
| **Cash flows from investing activities** | | | | |
| Acquisition of subsidiaries net of cash acquired | 15 | (12,020) | (1,044) | (7,409) |
| Acquisition/disposal of property, plant and equipment | | (1,254) | (829) | (1,635) |
| (Acquisition)/disposal of short term investments | | (287) | (1,159) | 232 |
| Acquisition of interest in a subsidiary | 16 | (1,000) | - | - |
| Interest received | 6 | 52 | 41 | 70 |
| EBT share purchase | | - | (804) | (804) |
| **Net cash used in investing activities** | | **(14,509)** | **(3,795)** | **(9,546)** |
| **Cash flows from financing activities** | | | | |
| Repayment of loan to Directors of acquired company | | - | - | (300) |
| Loan to finance Multimedia Tax Credits | | (1,157) | - | 1,110 |
| Repayment of loans | | (625) | - | - |
| Loan to finance acquisitions | | 4,000 | - | - |
| Dividends paid | 8 | (557) | (482) | (737) |
| Shares issued | | - | - | 14,213 |
| Share issuance expenses | | - | (14) | (14) |
| Interest paid | 6 | (69) | (34) | (128) |
| **Net cash used in financing activities** | | **1,592** | **(530)** | **14,144** |
| **Decrease in cash and cash equivalents** | | (12,272) | (4,875) | 8,004 |
| Exchange gain/loss on cash and cash equivalents | | 801 | - | - |
| Cash and cash equivalents at beginning of the period | | 19,018 | 11,014 | 11,014 |
| **Cash and cash equivalents at end of period** | | **7,547** | **6,139** | **19,018** |

KEYWORDS

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

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| **Income and expenses not affecting operating cash flows** | | | |
| Depreciation | 802 | 609 | 1,297 |
| Intangibles amortisation | 615 | 384 | 857 |
| Income tax expense | 1,279 | 126 | 1,832 |
| Share option expense | 284 | 136 | 392 |
| Loss on disposal of fixed assets | - | - | 20 |
| Loss on payment of deferred consideration | - | - | 194 |
| Interest received | (52) | (41) | (70) |
| Share issuance costs | - | 14 | 14 |
| Interest paid | 69 | 34 | 128 |
| Net foreign exchange difference | 1,703 | - | - |
| **Changes in operating assets and liabilities** | | | |
| (Increase)/ Decrease in trade receivables | (9,423) | (1,672) | 29 |
| (Increase)/ Decrease in other receivables | 940 | (1,113) | (2,533) |
| Increase/ (Decrease) in trade and other payables | 4,107 | 454 | (646) |
| | **324** | **(1,069)** | **1,514** |

# 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 30 June 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 interim financial statements were approved by the Board of Directors on 12 September 2016. The interim results for the 26 weeks ended 30 June 2016 and the 26 weeks ended 30 June 2015 are neither audited nor reviewed by our auditors and the accounts in this interim report do not therefore constitute statutory accounts in accordance with Section 434 of the Companies Act 2006. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of Keywords Studios plc for the year ended 31 December 2015.

The consolidated statutory accounts of Keywords Studios for the year ended 31 December 2015 have been filed with the Companies House. The report of the auditors on those accounts was unqualified, did not contain any statements under s.498 (2) or (3) of the Companies Act 2006 and did not contain any matters to which the auditors drew attention without qualifying their report.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the Keywords Studio plc latest annual audited financial statements.

In the current year the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as they have been adopted by the European Union, that are relevant to its operations and effective for accounting periods beginning on 1 January 2016. The adoption of these standards has had no material impact on the 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. None of these standards are expected to have a material effect on the Group's financial statements. A detailed review of the impact of IFRS 15 *Revenue from Contracts with Customers and IFRS 16 Leases* has however not been completed at this point, and therefore the Group is unable to conclude on what impact they may have on the Groups financial statements.

The Interim 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 Interim 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

There have been no changes to the accounting policies detailed in the 2015 Annual Report. Over the period covered by the Interim Report the company has acquired new companies, resulting in the creation of both Intangible Assets and Goodwill. The accounting policies relating to Intangible Assets and Goodwill are detailed below.

**Business Combinations**

The consolidated financial statements incorporate the results of the 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.

Any contingent consideration payable is recognised at fair value at the acquisition date and is split between current liabilities and long term liabilities. When the consideration becomes more certain, 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. The treatment is in compliance with the Equity Arrangement defined at IAS32.16.

**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 cash flow to be generated from the asset at the risk adjusted average weighted cost of capital appropriate to the intangible asset. The assets are estimated over their useful life which presently is 5 years starting from date the asset was capitalised.

**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. The Multimedia Tax Credits received in Quebec Province related to the production of multimedia titles are treated as a deduction against direct costs.

## 3 Critical accounting estimates and judgements

There has been no material revisions to the nature and amount of changes in estimates of amounts reported in the annual financial statements 2015 for Keywords Studios Plc.

## 4 Segmental analysis

Management considers that the Group's activity as a single source supplier of Technical Services for Video Games 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:

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

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

| | Unaudited<br>26 weeks ended<br>30 Jun 16<br>€'000 | Unaudited<br>26 weeks ended<br>30 Jun 15<br>€'000 | Audited<br>52 weeks ended<br>31 Dec 15<br>€'000 |
|---|---|---|---|
| **Revenue by line of business** | | | |
| Art creation | 6,660 | 2,780 | 8,211 |
| Audio | 9,148 | 2,302 | 7,157 |
| Localisation | 14,035 | 7,822 | 17,141 |
| Functional testing | 3,265 | 2,504 | 6,472 |
| Localisation testing | 6,928 | 6,816 | 15,021 |
| Customer support | 2,374 | 1,684 | 3,949 |
| | **42,410** | **23,908** | **57,951** |

**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.

| | Unaudited<br>26 weeks ended<br>30 Jun 16<br>€'000 | Unaudited<br>26 weeks ended<br>30 Jun 15<br>€'000 | Audited<br>52 weeks ended<br>31 Dec 15<br>€'000 |
|---|---|---|---|
| Ireland | 10,731 | 4,800 | 16,563 |
| Canada | 8,297 | 7,762 | 17,438 |
| Switzerland | 7,872 | - | - |
| Italy | 3,926 | 4,351 | 8,343 |
| India | 3,440 | 2,793 | 3,602 |
| United States | 3,372 | 2,259 | 6,573 |
| Japan | 2,392 | 1,387 | 3,324 |
| United Kingdom | 728 | 176 | 650 |
| Spain | 603 | - | 306 |
| Singapore | 379 | 184 | 687 |
| Brazil | 375 | 197 | 465 |
| Other | 295 | - | - |
| Total revenues | **42,410** | **23,908** | **57,951** |

**Geographical analysis of non-current assets from continuing businesses**

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| Ireland | 4,626 | 353 | 284 |
| Japan | 27 | 41 | 32 |
| Italy | 12,357 | 9,271 | 8,984 |
| Canada | 2,289 | 1,799 | 1,981 |
| United States | 8,431 | 2,669 | 8,707 |
| India | 2,966 | 743 | 3,039 |
| Singapore | 346 | 96 | 83 |
| United Kingdom | 6,139 | 7,269 | 6,885 |
| Brazil | 231 | 268 | 204 |
| Spain | 878 | 13 | 867 |
| Mexico | 82 | - | 95 |
| Switzerland | 13,015 | - | - |
| China | 142 | - | - |
| Germany | 1,283 | - | - |
| | **52,812** | **22,522** | **31,161** |

## 5 Seasonal business

The video games industry, and in particular the console sector of the games industry, remains heavily dependent on sales of new releases of games and consoles during the traditional holiday season, including the run up to Thanksgiving in the United States and Christmas in other parts of the world. As with all other service providers to the video games industry, certain of Keywords Group's service lines typically experience significantly higher activity as part of this release cycle during the six months from June to November. This activity typically drives increased revenues in that period and generates higher gross profit margins compared with the first six months of each calendar year.

In 2016, the Group worked on a number of large titles where the substantial localisation and audio components of those productions fell in the first half year, resulting in what we anticipate will be a smoothing of revenues between the first half and second half this year.

Revenue for the 52 weeks ended 30 June 2016 totalled €76,453k (2015: 52 weeks €47,483k) and gross profit totalled €28,466k (2015: 52 weeks €16,528k).

Please note that within the last six months to 30 June 2016, Keyword's Group has acquired 3 new entities which are also included in the results above.

## 6 Financing income and costs

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| **Finance income** | | | |
| Interest received | 52 | 41 | 70 |
| Foreign exchange gain | - | 617 | - |
| | 52 | 658 | 70 |
| **Finance cost** | | | |
| Bank charges | (101) | (108) | (206) |
| Interest expense | (69) | (34) | (128) |
| Foreign exchange losses | (1,771) | - | (474) |
| | (1,941) | (142) | (808) |
| **Net financing income/(cost)** | **(1,889)** | **516** | **(738)** |

## 7 Taxation

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| **Current income tax** | | | |
| Income tax on profits of parent company | 3 | - | 4 |
| Income tax on profits of subsidiaries | 1,287 | 305 | 1,518 |
| Deferred tax | (10) | (179) | 310 |
| | **1,280** | **126** | **1,832** |

The tax is calculated for all of the Keyword's entities, across all geographies, which have generated profits during the period after taking into account any tax losses brought forward. A number of entities within the group have incurred losses during the period, on which no tax refund has been assumed.

## 8 Dividends Paid

| | Unaudited 26 weeks ended 30 Jun 2016 | | Unaudited 26 weeks ended 30 Jun 2015 | | Audited 52 weeks ended 31 Dec 2015 | |
|---|---|---|---|---|---|---|
| | Per share Euro Cent | Total €'000 | Per share Euro Cent | Total €'000 | Per share Euro Cent | Total €'000 |
| **Interim** | | | | | | |
| Final | 1.03 | 557 | 1.03 | 482 | 1.03 | 482 |
| Interim | - | - | - | - | 0.54 | 255 |
| **Dividends approved/paid to shareholders** | **1.03** | **557** | **1.03** | **482** | **1.57** | **737** |

In June 2015, Keywords Studios plc approved a dividend of 0.74p/1.03c 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 0.40p/0.54c 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 0.81p/1.03c per Ordinary share, or €557,000 in total, as a final dividend for 2015. The dividend was paid in June 2016.

The Directors recommend an interim dividend of 0.44p/0.54c per share in respect of the financial year ended 31 December 2016 to be paid on 28 October 2016 to the shareholders who are on the register at 7 October 2016. The dividend is not reflected in the financial statements as it does not represent a liability as at 30 June 2016. The interim proposed dividend will reduce shareholders' funds by an estimated €291,023.

## 9 Earnings per share

| | Unaudited 26 weeks ended 30 Jun 16 | Unaudited 26 weeks ended 30 Jun 15 | Audited 52 weeks ended 31 Dec 15 |
|---|---|---|---|
| | **Euro cent** | **Euro cent** | **Euro cent** |
| Basic | 2.42 | 3.02 | 6.98 |
| Diluted | 2.36 | 2.99 | 6.87 |
| | **€'000** | **€'000** | **€'000** |
| Profit for the period from continuing operations | 1,328 | 1,428 | 3,363 |
| **Denominator (weighted average number of equity shares)** | **Number** | **Number** | **Number** |
| Basic | 54,979,778 | 47,247,519 | 48,192,371 |
| Diluted | 56,282,210 | 47,828,755 | 48,971,278 |

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 14.

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

## 10 Share Capital

| | Shares | €'000 |
|---|---|---|
| **At 1 January 2015** | **47,105,007** | **551** |
| Issued 158,250 @ £0.01 - Binari Sonori earnout | 158,250 | 2 |
| **At 30 June 2015** | **47,263,257** | **553** |
| Ordinary Shares of £0.01 issued on acquisition of Liquid Development | 1,074,440 | 15 |
| Placing of ordinary Shares of £0.01 on the market | 5,500,000 | 78 |
| **At 31 December 2015** | **53,837,697** | **646** |
| Ordinary Shares of £0.01 issued on acquisition of Kite Team | 55,508 | 1 |
| **At 30 June 2016** | **53,893,205** | **647** |

On 9 January 2015 the Group issued 158,250 of 1p shares at a value of £145p (€1.86) for the earn-out agreement with Binari Sonori.

On 20 August 2015 the Group issued 1,074,440 of 1p shares at a value of 160p (€2.25) which formed the part of the consideration for the acquisition of Liquid Development LLC.

On 26 November 2015, the group issued 5,500,000 1p shares at a value of £1.90 (€2.64) to purchase preference shares in Project Midas Limited. This transaction formed part of a placing of Keywords Studios shares for cash. The cash proceeds with respect to the share placement were received on the redemption of the preference shares held on 26 November 2015. The net proceeds raised were €14.2m net of costs of €656,000. No share premium is recorded in the Group's financial statements through the operation of the merger relief provisions of the Companies Act 1982 hence the premium is recorded in the merger reserve.

On 6 May 2016 the Group issued 55,508 1p shares at a value of £2.15 (€2.70) as part of the consideration paid to acquire the remaining 50% of Kite Team shares.

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

## 11 Goodwill

| | Liquid Violet Limited | Babel Media Limited | Binari Sonori Srl | Lakshya Digital Private Limited | Alchemic Dream | Reverb | Kite Team | Liquid Development | Ankama | Synthesis Group | Mindwalk | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| **Cost and net book value** | | | | | | | | | | | | |
| At 1 January 2015 | 1,043 | 4,375 | 7,630 | 1,663 | - | - | - | - | - | - | - | 14,711 |
| Recognition on acquisition of subsidiary | - | - | - | 80 | 457 | 283 | - | - | - | - | - | 820 |
| Revaluation adjustment | 173 | 658 | - | 145 | 2 | (20) | - | - | - | - | - | 958 |
| **At 30 June 2015** | 1,216 | 5,033 | 7,630 | 1,888 | 459 | 263 | - | - | - | - | - | 16,489 |
| Recognition on acquisition of subsidiary | - | - | - | (41) | 233 | (9) | 549 | 6,801 | - | - | - | 7,533 |
| Revaluation adjustment | (37) | (152) | - | (18) | (57) | (50) | - | 185 | - | - | - | (129) |
| **At 31 December 2015** | 1,179 | 4,881 | 7,630 | 1,829 | 635 | 204 | 549 | 6,986 | - | - | - | 23,893 |
| Recognition on acquisition of subsidiary | - | - | - | - | - | - | - | - | 213 | 14,927 | 3,117 | 18,258 |
| Revaluation adjustment | (107) | (444) | - | (79) | 32 | 27 | - | (113) | 4 | - | - | (680) |
| **At 30 June 2016** | 1,072 | 4,437 | 7,630 | 1,750 | 667 | 231 | 549 | 6,873 | 217 | 14,927 | 3,117 | 41,471 |

During the period goodwill arose on the acquisition of Ankama Asia Pte. Ltd., Synthesis Group and Mindwalk Studios Limited.

The goodwill is tested for impairment on an annual basis. The impairment test will be performed as part of the year end process and any adjustment required reported in the annual report. At 30 June 2016 the Board do not consider that there are any impairments required.

## 12 Intangible assets – customer relationships

| | Liquid Violet Limited €'000 | Babel Media Limited €'000 | Binari Sonari Srl €'000 | Lakshya Digital Private Limited €'000 | Alchemic Dream €'000 | Liquid Development €'000 | Ankama €'000 | Synthesis Group €'000 | Mindwalk €'000 | Total €'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| As at 1 January 2015 | 204 | 964 | 1,791 | 475 | - | - | - | - | - | 3,434 |
| Additions | - | - | - | - | 215 | - | - | - | - | 215 |
| Revaluation Adjustment | 34 | 145 | - | 41 | 3 | - | - | - | - | 223 |
| As at 30 June 2015 | 238 | 1,109 | 1,791 | 516 | 218 | - | - | - | - | 3,872 |
| Additions | - | - | - | - | 71 | 1,225 | - | - | - | 1,296 |
| Revaluation Adjustment | (7) | (34) | - | (5) | (24) | 34 | - | - | - | (36) |
| As at 31 December 2015 | 231 | 1,075 | 1,791 | 511 | 265 | 1,259 | - | - | - | 5,132 |
| Additions | - | - | - | - | - | - | 44 | 2,777 | 1,100 | 3,921 |
| Revaluation Adjustment | (21) | (98) | - | (22) | 13 | (20) | 1 | - | - | (147) |
| **As at 30 June 2016** | **210** | **977** | **1,791** | **489** | **278** | **1,239** | **45** | **2,777** | **1,100** | **8,906** |
| | | | | | | | | | | |
| **Amortisation and impairment** | | | | | | | | | | |
| As at 1 January 2015 | 39 | 169 | 239 | 21 | - | - | - | - | - | 468 |
| Amortisation charge | 23 | 111 | 179 | 52 | 20 | - | - | - | - | 385 |
| As at 30 June 2015 | 62 | 280 | 418 | 73 | 20 | - | - | - | - | 853 |
| Amortisation charge | 22 | 103 | 179 | 50 | 34 | 84 | - | - | - | 472 |
| Revaluation Adjustment | 4 | 21 | - | 3 | (3) | - | - | - | - | 25 |
| As at 31 December 2015 | 88 | 404 | 597 | 126 | 51 | 84 | - | - | - | 1,350 |
| Amortisation charge | 22 | 101 | 179 | 49 | 28 | 122 | 4 | 92 | 18 | 615 |
| Revaluation Adjustment | (7) | (40) | - | (6) | 3 | - | - | 1 | - | (49) |
| **As at 30 June 2016** | **103** | **465** | **776** | **169** | **82** | **206** | **4** | **93** | **18** | **1,915** |
| | | | | | | | | | | |
| **Net book value** | | | | | | | | | | |
| As at 30 June 2015 | 176 | 829 | 1,373 | 443 | 198 | - | - | - | - | 3,019 |
| As at 31 December 2015 | 143 | 671 | 1,194 | 385 | 214 | 1,175 | - | - | - | 3,782 |
| **As at 30 June 2016** | **107** | **512** | **1,015** | **320** | **196** | **1,033** | **41** | **2,684** | **1,082** | **6,991** |

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

### 13 Loans and borrowings

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| Current Instalment due on Bank Loans | 4,000 | - | 1,163 |
| | **4,000** | **-** | **1,163** |

During the period Keywords PLC entered into a 5 year revolving credit facility of up to €15,000,000 which can be used for both further acquisitions and to fund working capital. It is a €10,000,000 facility, expandable to €15,000,000 on the same terms with the consent of Barclays Bank. The interest rate is 2% above Euribor and there is a 0.4% margin which is charged for unutilised facility. There are charges over the assets of Keywords Studios plc, Keywords International Ltd, Binari Sonori S.R.L, Babel Games Services Inc. and Liquid Development LLC.

In the period Babel Media Canada repaid the loan entered into in 2015 for the equivalent of €1.1m to finance the tax credits for 2013/2014 which remained outstanding. The loan bore interest of the base rate for Canada +1% margin and was repaid in 2016. There was a charge over the assets of Babel Canada relating to the loan.

Additionally, the group discharged the following liabilities within Kite Team which existed at 31 December 2015, after the acquisition of the remaining 50% of Kite Team share capital; a loan for €150,000 at a fixed rate of 6.30% payable by 1 January 2021 and a loan for €200,000 at a fixed rate of 5.38% payable by 20 December 2021. Both of these loans had been guaranteed by a Director of Kite Team.

In addition, the Director of Kite Team was repaid the loan given to the company of €295,000 which was payable by the latest 31 March 2017.

The loans are repayable over the following periods**.**

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| Expiry within 1 Year | 4,000 | - | 1,163 |
| Expiry between 1 Year and 2 Years | - | - | 350 |
| Expiry over 2 Years | - | - | 221 |
| | **4,000** | **-** | **1,734** |

The currencies of these loans are as follows;

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| Euro | 4,000 | - | 621 |
| Canadian Dollars | - | - | 1,113 |
| | **4,000** | **-** | **1,734** |

## 14 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:

| | Unaudited 26 weeks ended 30 Jun 16 €'000 | Unaudited 26 weeks ended 30 Jun 15 €'000 | Audited 52 weeks ended 31 Dec 15 €'000 |
|---|---|---|---|
| Share Option Scheme Expense | 100 | 60 | 158 |
| Share Option Scheme - LTIP Expense | 184 | 76 | 235 |
| | **284** | **136** | **393** |

Of the total share option charge, €16,170 relates to Directors of the Company as at 30 June 2016, (2015: €19,898).

### Share option scheme

Share options are granted to certain Directors and 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:

| **Share option scheme** | **Unaudited 30 Jun 2016** | | **Unaudited 30 Jun 2015** | | **Audited 31 Dec 2015** | |
|---|---|---|---|---|---|---|
| | **Average exercise price in £ per share** | **Number of options** | **Average exercise price in £ per share** | **Number of options** | **Average exercise price in £ per share** | **Number of options** |
| Outstanding at the beginning of the period | 1.44 | 1,642,242 | 1.20 | 642,286 | 1.20 | 642,286 |
| Granted | 2.45 | 223,200 | 1.58 | 1,059,040 | 1.58 | 1,059,040 |
| Lapsed | 1.72 | (9,580) | 1.20 | (18,684) | 1.20 | (32,553) |
| Exercised | 1.16 | (37,842) | - | | 1.20 | (26,531) |
| Outstanding at the end of the period | 1.57 | 1,818,020 | 1.44 | 1,682,642 | 1.44 | 1,642,242 |
| Exercisable at the end of the period | 1.19 | 143,512 | - | - | 1.20 | 178,133 |

There were 223,200 options granted during the period and 9,580 lapsed due to staff leaving.

On 10 May 2016, 203,200 options were granted at an exercise price of £2.54. All options were granted to either employees or Directors of the Group. Of the 203,200 options granted, 67,733 are exercisable from 10 May 12017 to 9 May 2022, 67,733 are exercisable from 10 May 2018 to 9 May 2022, and 67,733 are exercisable from 10 May 2019 to 9 May 2022

A further 20,000 options were granted in relation to the May 2015 tranche at an exercisable price of £1.58. All options were granted to either employees or Directors of the Group. The 20,000 options granted, 6,667 are exercisable from 31 May 2017 to 1 June 2022, 6,667 are exercisable from 31 May 2018 to 1 June 2022, and 6,667 are exercisable from 31 May 2019 to 1 June 2022.

**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 1,514,552 (2015: 860,206) nil price (1p) options are available to vest to Directors and to selected employees on the basis of the number of options they are entitled to.

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

| | Unaudited 30 Jun 2016 | | Unaudited 30 Jun 2015 | | Audited 31 Dec 2015 | |
|---|---|---|---|---|---|---|
| | **Average exercise price in £ per share** | **Number of options** | **Average exercise price in £ per share** | **Number of options** | **Average exercise price in £ per share** | **Number of options** |
| Outstanding at the beginning of the period | 0.01 | 860,206 | 0.01 | 376,226 | 0.01 | 376,226 |
| Granted | 0.01 | 690,000 | 0.01 | 489,540 | 0.01 | 489,540 |
| Lapsed | 0.01 | (35,654) | - | - | 0.01 | (5,560) |
| Exercised | - | - | - | - | - | - |
| Outstanding at the end of the period | 0.01 | 1,514,552 | 0.01 | 865,766 | 0.01 | 860,206 |
| Exercisable at the end of the period | - | - | - | - | - | - |

On 10 May 2016, 690,000 options were granted at an exercise price of £0.01. All options were granted to either employees or Directors of the Group. The 690,000 options granted are exercisable from 10 May 2019 to 9 May 2023 if the market performance conditions are met as at 10 May 2019.

## 15 Acquisitions

**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 SAS 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:

| | Book Value €'000 | Fair Value Adjustment €'000 | Fair Value €'000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Identifiable intangible assets - customer relationships | - | 44 | 44 |
| Trade and other receivables | 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 |
| Net cash outflow arising on acquisition | | | |
| Cash | | | 296 |
| Less: cash and cash equivalent balances transferred | | | (120) |
| | | | 176 |

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

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

Ankama Asia Pte Ltd contributed €110,121 revenue and €12,471 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 the six months of €122,958 would have been contributed to the Group and loss before tax of €13,205.
Acquisition costs of €16,815 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 Synthesis Global Solutions SA, (SGSS) a company registered in Switzerland
- 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

The Synthesis Group provide localisation 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:

| | Book Value €'000 | Fair Value Adjustment €'000 | Fair Value €'000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Property, plant and equipment | 236 | - | 236 |
| Identifiable intangible assets - customer relationships | - | 2,777 | 2,777 |
| Trade and other receivables | 1,533 | (92) | 1,441 |
| Cash and cash equivalents | 992 | - | 992 |
| Trade and other payables | (1,855) | - | (1,855) |
| Deferred tax asset | - | 16 | 16 |
| Deferred tax liabilities | - | (539) | (539) |
| Total identifiable assets | 906 | 2,162 | 3,068 |
| Goodwill | | | 14,927 |
| Total consideration | | | 17,995 |
| Satisfied by: | | | |
| Cash | | | 10,200 |
| Shares to be issued | | | 6,906 |
| Deferred consideration | | | 889 |
| **Total consideration transferred** | | | 17,995 |
| Net cash outflow arising on acquisition | | | |
| Cash | | | 10,200 |
| Less: cash and cash equivalent balances transferred | | | (992) |
| | | | 9,208 |

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 within the industry.

A fixed amount of 2,376,518 Keywords Studios Plc 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) and €6,906,000 has been recorded as shares to be issued within equity, in accordance with IAS 32.16.

The Synthesis Group of companies contributed €7,958,083 revenue and €2,356,996 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 the six months of €10,608,000 would have been contributed to the Group, and a corresponding profit before tax of €2,750,000.

Acquisition costs of €237,788 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 Directors of the Group have reviewed the requirements of IFRS 3 (Business Combinations) paragraph B5 – B12 and concluded that as Mindwalk constitutes an on-going business within the Group that it should be accounted for as a business combination.

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

| | Book Value €'000 | Fair Value Adjustment €'000 | Fair Value €'000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Property, plant and equipment | 465 | (333) | 132 |
| Identifiable intangible assets - customer relationships | - | 1,100 | 1,100 |
| Trade and other receivable | 581 | (39) | 542 |
| Cash and cash equivalents | 442 | (30) | 412 |
| Deferred tax assets | - | 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 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 €1,886k has been recorded as shares to be issued in reserves, in accordance with IAS 32.16.

Mindwalk contributed €247,722 revenue and €60,209 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 the 6 months to 30 June 2016 of €1,907,023 would have been contributed to the Group and €13,428 profit before tax.

Acquisition costs of €173,188 have been charged through to the Comprehensive Income Statement.

## 16 Acquisition of the remaining non-controlling interest in a subsidiary

On 5 April 2016, the Group exercised the Put and Call Option to acquire the remaining 50% interest in Kite Team.

The consideration was €1,150,000, and was satisfied by €1,000,000 in cash and 55,508 Keywords shares with a par value of £555 (€690) and share premium of £119,204 (€149,310).

## 17 Events after the reporting date

**Acquisition after the reporting Date**

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.

Under the terms of the agreement, consideration of CAD 5,250,000 was settled as follows;

CAD 4,700,000 (€3,220,943) was paid on acquisition, CAD 300,000 (€205,592) is deferred for 18 months, and 45,192 shares in Keywords Studios Plc, CAD 250,000 (€171,327) were issued to the sellers on the date of acquisition.

The book value of net assets acquired was as follows;

| | **Book Value €'000** |
|---|---|
| **Financial Assets** | |
| Property Plant & Equipment | 75 |
| Trade & Other Receivable | 512 |
| Cash and Cash Equivalents | 38 |
| Trade & Other Payables | (309) |
| Deferred Tax | (75) |
| Total Identifiable Assets | 241 |
| Goodwill and Intangibles | 3,324 |
| Total Consideration | 3,565 |
| | |
| Satisfied By: | |
| Cash | 3,221 |
| Equity Instruments (45,192 shares in the parent company) | 171 |
| Deferred Consideration of €205,592 at present value | 172 |
| | 3,565 |
| Net Cash Outflow arising on Acquisition | |
| Cash | 3,221 |
| Less Cash | (38) |
| | 3,183 |

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 profit impact on the financial statements due to this acquisition has not been disclosed as it impractical to do so at this time.