SDL

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Annual Report 2013

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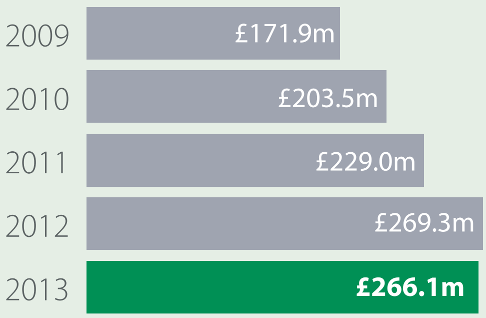
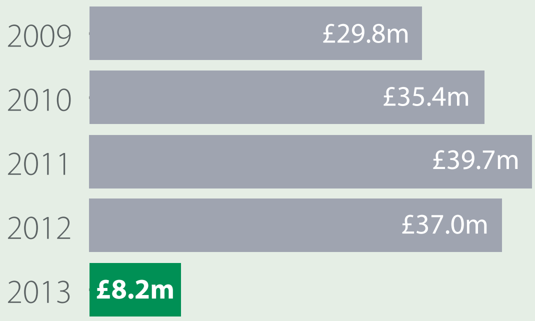
*These sections form part of the Directors' Report

Financial Highlights

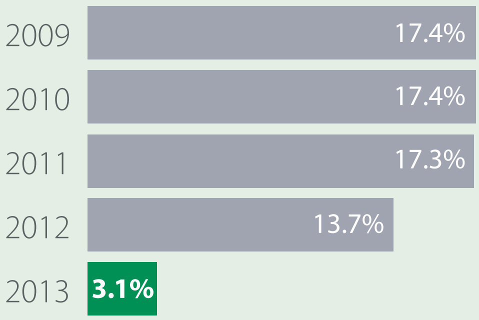
Revenue



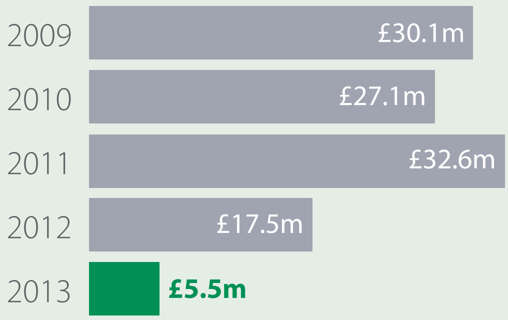
Profit Before Tax & Amortisation and One-off Costs



Operating Margins Before Amortisation and One-off Costs



Operating Cash Flow



Operational Performance

Strategic Performance Indicator	Measure	Measure
Revenue	Change %	-1.2%
Profit before tax and amortisation and one-off costs	Change %	-77.8%
Net cash flows from operating activities	Change %	-68.6%
Technology revenues	% of group total	44% (2012: 44%)
Acquisitions	Transactions	Completed acquisition of Bemoko Consulting Limited on 8 February 2013
Innovation	Number of product releases	75 (2012: 41)

Chairman's Statement

Although the financial performance of SDL in 2013 was not as we anticipated at the beginning of the year as bookings growth did not materialise as quickly as we had planned following our investments in sales and marketing, I believe that we have made significant progress in restructuring the business in order to ensure long-term value creation for our shareholders.

Mark Lancaster returned to the role of Chief Executive Officer at the end of 2012. Although we initially expected that this would be an interim appointment, by the end of the first quarter, it became apparent that Mark's leadership would be key in effecting a more fundamental restructuring of the organisation. Consequently, the Board felt that it would be inappropriate for Mark to stay in the roles of both Chairman and Chief Executive Officer. During the second quarter the Board ran a process to find a new Chairman and that resulted in me taking on that role at the beginning of July.

I believe that it is important that the Board has the requisite skills and experience to support Mark and his executive team in delivering profit and growth, in order to enable long-term value creation for our shareholders. Therefore whilst Mark set about the vital task of restructuring the executive team, I have taken the opportunity to look at the structure and capabilities of the Board. This has resulted in recruiting two new non-executive directors.

I am pleased to welcome Alan McWalter to the Board. He joined us in March 2014. Alan has a wealth of valuable experience and has succeeded me as Senior Independent Director. He will also serve on the Audit and Remuneration Committees. We have also announced that Glenn Collinson will join SDL as a non-executive director and Chairman of the Remuneration Committee from June 2014. He will also sit on the Audit Committee. Glenn has significant experience as both an Executive and Non-executive Director in technology businesses.

Having served on the Board of SDL for nearly 9 years, Joe Campbell has informed the Board that he will not stand for re-election at our AGM in April. On behalf of the Board, I would like to thank Joe for his valuable contribution to the business over many years. We also welcomed Dominic Lavelle to the Board as Chief Financial Officer replacing Matthew Knight who stepped down in November. We thank Matthew for his contribution. Dominic has 25 years of financial experience and proven credentials in turnaround situations.

Under Mark's leadership, the executive team has taken some bold steps in 2013, making significant changes in the operational structure to align the business with the significant market opportunity and laying the foundations for sustainable future growth. This has meant evolving from a business unit structure to an integrated global business.

In 2013, the executive management team began to execute a long-term go-to-market plan that has required significant changes to the executive leadership team including the recruitment of individuals with the skills and experience to drive the business forward. Consequently, 2013 has seen a number of key hires into the business and also a number of departures. The Board believes that the investments being made and the initiatives being undertaken are thoughtful and considered. Early signs show that the decision to invest in infrastructure and management is strengthening our business.

The Board remains very confident in the operational cash generation of the business. The Board has previously communicated a progressive dividend policy whereby dividends would be set based upon the evolution of our profits. However, as a result of the restructuring and investment costs in 2013, the Board will not be recommending a final dividend to the Annual General Meeting for 2013.

In many respects, 2013 has been a very difficult year for SDL. I believe it has also been a year when we have executed some fundamental changes to the business, which we believe are essential for our future success. These changes have impacted not only the executive team, but also the entire workforce of SDL. I have been particularly impressed by the character, enthusiasm and energy of our employees during a period of rapid change. On behalf of the Board, I would like to record our thanks to them for their commitment, passion and hard work.

David Clayton
Chairman

CEO's Review

This has without doubt been the toughest year SDL has ever had. Although the financial performance of SDL in 2013 was significantly below 2012, we feel the investments and restructuring we have made in 2013 set SDL up for a very prosperous future. Revenues were £266.1 million (2012: £269.3 million). Profit before taxation, amortisation of intangible assets and "one off" costs ("PBTA") was £8.2 million (2012: £37.0 million). The loss before tax for the year was £24.4 million. The reduction in profits was due primarily to planned sales and marketing investments, significant restructuring, slightly reduced technology licence revenues as well as weaker first half margins in Language Services. The cash generated from operations was £15.8 million (2012: £25.8 million). Gross cash in the business at the year-end was £18.2 million (2012: £28.5 million) whilst net debt was £1.8 million (2012: cash £6.3 million).

Following my return to the business as CEO in late 2012, we have made some significant and necessary changes. The market has evolved significantly over the last 3 years and SDL needed to make structural changes to properly align the company with the market opportunity.

Considering the massive changes we have made to SDL's operational and management structure to align with the market opportunity, we are now in a great position to take advantage of our fast-evolving digital world. I believe we will probably look back on this year as being the most important in SDL's history, setting the foundations and structure to embrace this market opportunity. We had some great customer wins including Acer, Adidas, Haier, Nissan, Skype, Turkish Airlines and VMware, and completely recovered our Language Service business margins to be one of the most efficient in the world due to our investment in technology, process and infrastructure.

We have restructured the business from the ground up, creating a structure that provides a holistic solution to the market's needs, not just from the technology solutions, where we have always been strong, but also from a go to market sales and services delivery model. We have changed our structure from a product line focused model to that of a customer centric business model. During the second half of 2013, SDL hired several experienced technology executives to the company.

- We have aligned the sales force under a Chief Revenue Officer; Bernadette Nixon, an experienced software sales leader. We now have a sales force with an aligned execution model that will provide greater coverage and better leverage and solutions for our customers.
- Research and Development is lead by Dennis Van der Veeke, providing better product integration and technology aligned with market needs
- We put in place a Chief Operating Officer; Jean-Pierre Dekker to provide a single customer centric go-to-market and delivery function
- Marketing is now centralised under Paige O'Neill, Chief Marketing Officer, to enhance our brand and go-to-market delivery


Mark Lancaster
CEO

- Dominic Lavelle has been hired as CFO with 25 years of financial experience

The new hires are proven industry leaders in their field that understand how to consolidate and integrate complementary technologies to deliver business benefits. They join Dominic Kinnon who heads up language solutions, and, as a team, are jointly charged with delivering on SDL's customer experience management vision.

Of equal importance, we have implemented a number of large scale global systems to help manage the business more effectively. These include a new global HR system, CRM and financial systems. The projects were kicked off early 2013 and are expected to be fully operational by the end of 2014.

We rolled out a number of training and realignment programs in the last quarter of 2013 and these will continue in the first half of 2014 to ensure complete alignment throughout the whole organisation.

Throughout the organisation, this has created new opportunities, allowing us to bring in new talent and right size the organisation, creating cost savings and efficiencies.

The technology

Over the last 10 years, SDL has acquired, and then further developed discrete technology solutions to create a single integrated technology. In January 2014 we launched the SDL Customer Experience Cloud™, a unified suite of offerings to help marketers create and deliver seamless global customer experiences across all channels, devices and languages.

The SDL Customer Experience Cloud integrates web content management, campaign management, social intelligence, customer analytics, e-commerce, language solutions and document management. The technology suite empowers organizations from marketing through to customer support to understand, create, manage and deliver contextually relevant customer experiences that drive better marketing decisions, e-commerce success and long-term customer engagement.

The market

As the digital world continues to grow exponentially, both the opportunity and challenges this presents to businesses is unprecedented and will require companies to change the way they operate. The amount of information relating to products and services that is rapidly becoming available in our digital world is both enormous and valuable. However, to consume this information and filter the value to gain insights of what customers find attractive and then orchestrate a business to deliver the right contextual information at the right time across all channels can only be solved with technology. SDL's goal is to provide businesses with an integrated suite of technology that allows companies to engage with their customers by gaining insights into their customers, orchestrating the disparate silos in their business to then provide the best possible information to their customers across the whole customer journey from sales through to support.

Competition in the Customer Experience Management space has intensified; there has been a considerable amount of M&A activity in the past two years with the larger IT players, such as Oracle, Adobe, Salesforce, HP and IBM making similar technology-led acquisitions that SDL made over the last six years. We feel comfortable with our positioning and differentiation. Our focus is to provide an integrated suite of technology that is focused on customer engagement versus traditional customer relationship management platforms that are focused more on back office management as opposed to revenue-driving customer engagement. We expect the market to continue to evolve rapidly over the next three years, as consumers demand better customer engagement through hand held devices and general online access to relevant information. This, in turn, will force companies to provide relevant information at all points in the customer life cycle.

Outlook

The foundations and infrastructure are in place. Throughout 2013, the hard decisions and investments have been made. However, there will be a lag before the restructuring and investments take full effect. As we move through 2014 we expect the business to gain bookings, revenue and profit momentum as the new structure and initiatives take effect. SDL has a solid foundation of best of breed integrated technology, and, we have put in place an organisational structure to deliver it. This gives us great deal of confidence we will return to the levels of profitability and exceed the levels of technology growth we had in the past.

Financial Review

The Group's performance in the year was significantly below last year. Revenues were £266.1 million (2012: £269.3 million). Profit before taxation, amortisation of intangible assets and one-off costs ("PBTA") was £8.2 million (2012: £37.0 million). The reduction in profits was primarily due to planned sales and marketing investments and slightly reduced technology licence revenues, plus weaker first half margins in Language Services.

"One-off" costs of £25.1 million comprise: redundancy costs of £2.5 million, historic litigation costs of £1.4 million (2012: £1.5 million), onerous lease costs of £0.4 million, other costs of £0.4 million and an impairment of goodwill of £20.4 million in our Content and Analytic Technologies segment. The impairment is a natural consequence of a disappointing trading year as this segment delivered 2013 losses of £5.5 million.

After these one-off costs, loss before tax was £24.4 million (2012: £27.4 million profit).

The cash generated from operations was £15.8 million (2012: £25.8 million). Gross cash in the business at the year-end was £18.2 million (2012: £28.5 million) whilst net debt was £1.8 million (2012: cash £6.3 million). Capital expenditure was £6.1 million (2012: £5.4 million) due to increased investment in SaaS cloud infrastructure. Tax paid was £10.3 million (2012: £8.3 million), above the profit and loss tax charge shown in the income statement primarily due to some prior year tax payments and the deferred tax credit for intangible asset amortisation which suppresses the profit and loss charge. See figure 1.

The headline revenue decrease of 1.2% can be attributed to an underlying organic decline of 3.6%, 1.0% growth from acquisitions and a 1.4% increase arising from foreign exchange effects. Geographically, the decline in Asia was 2.2%, North America was 0.2%, with Europe decreasing by 4.3%. See figure 2.

The business continues to benefit from a diverse mix of regions, industry verticals and customers, limiting the group's exposure to adverse economic conditions in certain countries and sectors. Group revenues by reporting segment are shown in figure 3 and a geographic split by destination is shown on figure 4.

Customer concentration continues to reduce with the 20 largest customer contributing 26% (2012: 27%) of revenue in 2013. No single customer contributes more than 5% of group revenues.

Performance by Segment

As a result of the restructuring described in the CEO Review, the Group is now organised into business units based on services and technology products, and has three reportable segments.

Language Services (contributing £150.5 million or 56% of total revenue and £17.6 million of PBTA) (2012: contributing £151.1 million or 56% of total revenue and £23.2 million of PBTA).

Segment revenue reduced by 0.4% in the year, comprising an underlying decline of 2.0% at constant currency and a 1.6% gain on foreign exchange. A weaker performance in the first half, which saw a half on half headline revenue decline of 2.5%, was turned around in the second six months of the year where half on half revenue growth of 1.7% was achieved. A stronger second half was driven by growth in continental Europe where revenue grew by 7% in the half or 6% for the year and in Canada where revenue grew by 9% in the half or 5% for the year.

Segment PBTA margin declined to 11.7%, due to the disappointing first half. PBTA margin was much improved in this business towards the end of the year as a result of the wide-reaching efficiency programme. The second half contributed £10.7 million to the PBTA result for the year at PBTA margin of 13.8%, an improvement on the 9.4% achieved in the first half.

We continue to invest in improving our infrastructure, including expanding the use of automated translation technology, new workflow efficiency tooling and other productivity improvement projects. Adoption of the Intelligent Machine Translation (iMT)

Fig 1 Operating Cash Flow

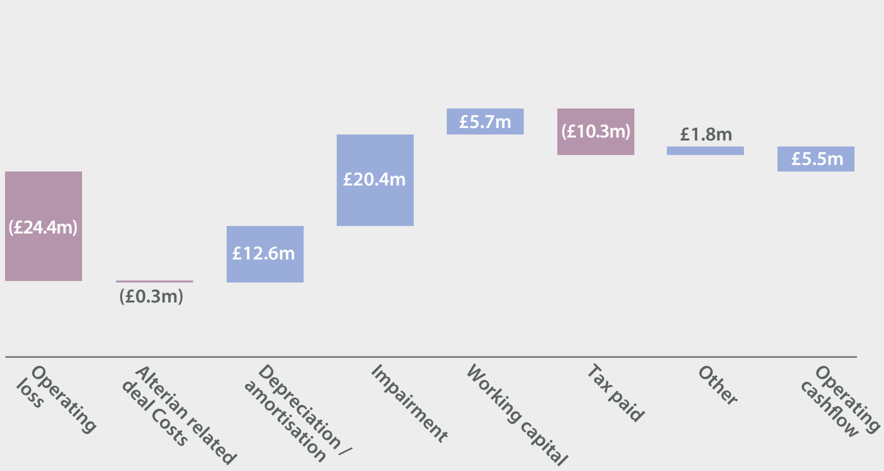


Fig 2 Revenue

solution across the customer base has increased from 16% to 20%. During the period we have grown our presence in Poland and India by approximately 60 heads. We have also established a new translation network office in Ho Chi Minh in Vietnam, leveraging our existing presence in this country.

267 new accounts were added globally, which are expected to contribute to growth in 2014.

New clients in 2013 include Acer, Asus, Carestream, Haier, Lenovo, Nissan, NTT and Skype.

Content & Analytic Technologies (contributing £79.4 million or 30% of revenue and losses of £5.5 million PBTA) (2012: contributing £79.1 million or 29% of revenue and £10.5 million PBTA).

This segment comprises Web Content Management Solutions, eCommerce technologies and Structured Content Technologies, plus Marketing Analytics, Campaign Management and Social Intelligence technologies (the main components of the Alterian acquisition which completed on 27 January 2012). Prior period comparatives include only 11 months of Alterian trading.

Segment revenue grew by 0.4%, comprising an underlying decline of 4.2% offset by an acquisition effect of 3.6% and a foreign exchange effect of 1.0%.

The segment PBTA margin was -7% (2012: +13%), due to £12.1 million of planned sales, marketing and research and development investments made during the first half of the year which did not deliver the planned revenue increase in the second half of the year.

New clients in 2013 include Amerigroup Corporation, Amalgamated Banks of South Africa, Brown Forman, Frito Lay, NH Hotel, Prostate Cancer UK, Skype, Tekla Corporation and Turkish Airlines.

Language Technologies (contributing £36.2 million or 14% of total revenue and losses of £3.9 million of PBTA) (2012: contributing £39.1 million or 15% of revenue to the group and £4.0 million of PBTA).

This segment comprises Desktop translation technologies, Enterprise translation solutions and Machine Translation.

Segment revenue reduced by 7.4%, comprising an underlying decline of 8.7% and foreign exchange effects contributing a 1.3% increase. Whilst sales of translation productivity tools remained relatively stable, licence revenues were affected by weak licence bookings in enterprise translation management tools. Although gross margins were broadly maintained at 82% (2012: 84%), a combination of declining segment revenues and maintaining investments resulted in a PBTA margin for the year of -11% (2012: +10%).

New clients in 2013 include Adidas, Capitol IQ, VMware and Wurtholters Kluwer China.

Technologies (combined revenue of £115.6 million or 44% of total revenue and losses of £9.4 million PBTA) (2012: £118.2 million or 44% of revenue and £14.5 million PBTA).

Software as a Service ("SaaS") sales continued to increase as a proportion of total licence sales (2013: 49%; 2012 41%), a positive trend that improves the revenue visibility of the business going forward.

Gross Margin

The group's gross margin was 55%, a decrease from 56% in 2012.

Administrative Expenses

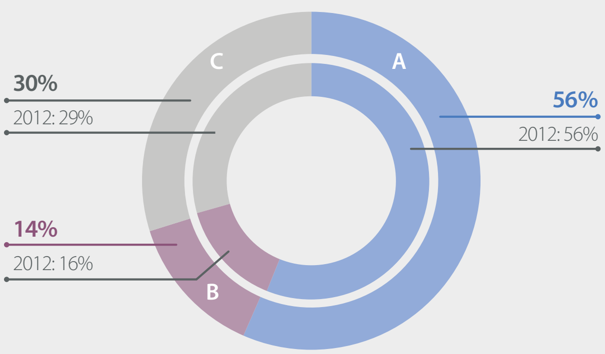
Administrative costs excluding intangibles amortisation and one-off costs increased in 2013 to £137.4 million (2012: £114.3 million).

Research and development costs of £24.8 million (2012: £22.9 million) are included in administrative expenses. This includes £0.5 million of incremental cost for an additional month of research and development for Alterian that was acquired on 27 January 2012. Significant product releases in 2013 were SDL Trados Studio 2014, SDL Intelligent Marketing Suite, SDL Customer Commitment Framework, SDL Fredhopper 7.5, SDL Tridion 2013 and www.freetranslation.com.

Development costs have been reviewed, and the Board remains of the opinion that capitalisation criteria under International Accounting Standard (IAS) 38 are not met. Consequently, no development costs are capitalised on the balance sheet.

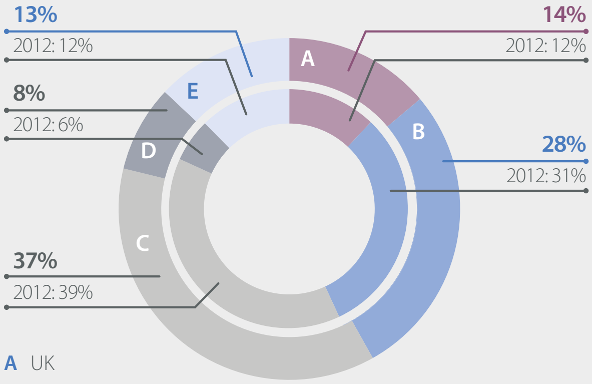
Headcount was 3,205 at the end of 2013, compared to 2,985 at the end of 2012. Employee related costs remain the most significant component of group costs, amounting to 67% of group overheads (2012: 69%) excluding amortisation of intangibles and one-off costs.

Fig 3 Analysis of Revenue by Segment



A Language Services
B Language Technologies
C Content and Analytic Technologies

Fig 4 Geographic Split of Sales by Destination



A UK
B Europe
C USA
D Canada
E Rest of World

Intangible assets ascribed to certain of the Group's software and customer relationships arising from acquisitions are amortised over periods of between 5 and 10 years and the carrying value is formally reviewed on an annual basis to assess whether there are indicators of impairment. The intangible asset amortisation charge in 2013 was £7.5 million (2012: £8.1 million).

Intangible assets and goodwill were allocated to three Cash Generating Units ("CGU") namely Language Services, Content and Analytic Technologies and Language Technologies. The 2013 impairment review resulted in an impairment of £20.4 million in the Content and Analytic Technologies segment. The full detail of the impairment review is explained in note 12 to the accounts.

Earnings Per Share

Basic earnings per share when adjusted for amortisation of intangibles and one-off costs ("adjusted EPS") decreased by 93% to 2.57 pence. The deferred tax benefit associated with the amortisation of the intangible fixed assets and one-off costs of £2.6 million (2012: £2.2 million) and one-off costs of £25.1 million, has been adjusted in this calculation of EPS. Basic losses per share were 34.78 pence (2012: earnings, 26.12 pence).

The development in fully adjusted EPS year on year is shown in figure 6.

Financing Costs

Interest costs in 2013 were £0.5 million (2012: £0.4m). At the start of the year drawn borrowings were £22.2 million. £2.2 million was repaid in January 2013. Drawn borrowings remained at £20.0 million throughout the year. Net debt was £1.8m at year end.

Cash flow

The £28.8 million decline in PBTA, before one-off costs, was partially offset by an improved working capital performance with an inflow of £5.7 million (2012: £8.1 million outflow), resulting in a reduction in cash flow from operations of only £12.0 million; net cash flow from operating activities was £5.5 million (2012: £17.5 million).

Borrowing Facilities

During the year, the group's existing borrowing facilities of £27 million were replaced with a single revolving credit facility of £30 million expiring in September 2015; £20 million of this facility was utilised at the year-end.

Pricing of this new £30 million borrowing facility is at a 1.15% margin on LIBOR. Under the credit facility agreement, SDL is subject to certain financial covenants which are required to be tested quarterly. These covenants relate to EBITA: Borrowing Costs; Net Cash Flow: Debt Service Liability and Gross Borrowings: EBITDA. The Board remains of the opinion that operating with low levels of debt is appropriate in the current economic environment, whilst maintaining sufficient debt facility headroom to finance normal investment activities.

Derivatives and other Financial Instruments

The Group has cash and short-term deposits of varying durations to fund its working capital needs and other financial assets and liabilities such as trade debtors and trade creditors arising directly from its operations. The Group's policy continued to be that no active trading in financial instruments will be undertaken within the operating units and all decisions on use of financial instruments will be taken at Group level under the direction of the Chief Financial Officer.

Taxation

SDL is a global business and as such the Group's effective tax rate is heavily influenced by the territorial mix of where operating profits are earned. A detailed analysis of the taxation charge is included in note 6 to the accounts.

The tax charge for the year is £3.5 million (2012: £6.5 million).

Acquisition of Bemoko Consulting Limited

On 8 February 2013, the Group acquired 100% of the share capital of Bemoko Consulting Limited, an unlisted company based in the United Kingdom. The principal activity of Bemoko Consulting Limited is the provision of mobile solutions.

The total cost of the combination comprises £2.2 million of which £1.4 million was funded from the Group's existing cash resources and £0.8 million of contingent consideration will be settled in shares.

Trados Litigation update

As reported previously, the group has ongoing litigation related to the Trados acquisition. In 2013, the Court of Chancery in the State of Delaware has ruled in favour of the former Trados Directors that there was no breach of fiduciary duty in the sale of Trados to the Company. The judgement allows for the plaintiff to seek recovery of some of their legal costs from the defendants on the grounds that certain aspects of the defence was given in bad faith, this is a cost would be a liability to the Trados Directors personally under Delaware law. There is also the possibility the Plaintiff appeals the decision. If the appeal by the Plaintiffs is successful there is a potential, significant reimbursement of funds from the Trados directors to SDL. If the Trados Directors are successful in upholding the ruling, there could be additional legal costs to pay by SDL of up to £0.2 million.

Fig 5 Operating Margins before amortisation and one-off costs

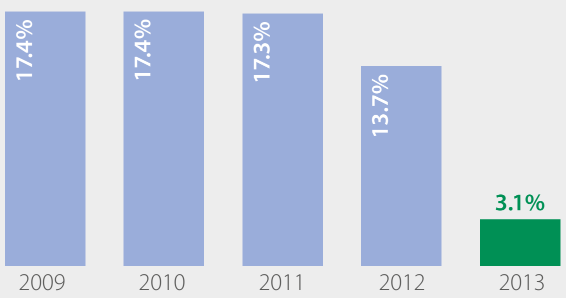
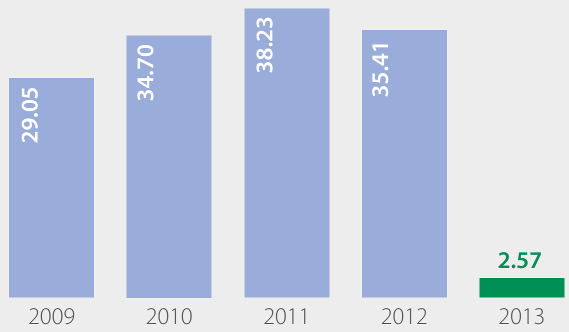


Fig 6 Development in Fully Adjusted EPS Year on Year



Case Studies

Gulliver Travel Associates Delivers a Worldwide Customer Experience with SDL

GTA, part of Kuoni's Global Travel Services Division, a leading B2B travel provider, has selected SDL to help deliver a seamless and personalized customer experience to thousands of users in 185 countries worldwide.

As a global travel leader processing over 21,000 bookings per day in more than 25 languages online, GTA depends on SDL's translation technology to localize tens of thousands of hotel and ground travel descriptions to its global customer base. The end result is a consistent customer experience, customized by language and culture, delivered around the world.

In order to support the considerable growth in translation volume experienced over the past few years, GTA uses a combination of products within the SDL Language Platform: SDL WorldServer and SDL BeGlobal:

- SDL WorldServer increases the efficiency of its human translation process, allowing GTA to go to market faster with reduced turnaround time; making it an even more competitive option for the hospitality and tourism businesses that are its customers.
- SDL BeGlobal machine translation technology enables GTA to handle the increased translation volumes and enter markets in new geographies at a lower cost and risk.

> "Our global business of contracting hotel rooms and ground travel services is growing so fast we had to call 'time out' on traditional translation and look for an innovative solution that could cope with translating tens of thousands of product descriptions, drawn from 185 countries. We confidently selected SDL BeGlobal machine translation to deliver quality localized content to our customers in a timely, cost effective manner, helping our customers be more successful with our platform."
>
> Kevin Ashbridge, Content & Translation Manager at GTA

Belkin supports its Surging Global Business with SDL WorldServer

With sales in more than 100 countries and over 1,500 employees, Belkin makes people-inspired products that harness the power of technology to enrich people's lives. From wireless home networking and entertainment, to mobile accessories, energy management, and a broad USB and cable mix, Belkin products connect the dots between people and the things they love.

> "SDL helped us identify the areas that are really important as we grow into new markets. Together, we realised that a more flexible approach was required, and the OnDemand model of SDL WorldServer offered a fast implementation with long term development and customization opportunities."
>
> Marie-Claude Falardeau, Localization Engineer, Belkin

To maintain business growth, Belkin believes that the future lies in new and ground-breaking global markets. Ensuring accurate translation of its technical documentation, marketing collateral and in-product software is key to Belkin's business success.

To support its growth in new international markets, Belkin partnered with SDL and implemented SDL WorldServer for centralized translation management, SDL Trados Studio, the world leading translation productivity solution and introduced SDL Certification.

Following implementation, Belkin has:

- Reduced localization costs as a result of improved translation reuse – for one particular project, a 90% cost saving was achieved
- Achieved faster time-to-market due to enhanced control over the translation process
- Improved productivity from the creative teams, who are now free to use the latest design technologies

With SDL language solutions supporting the localization process, Belkin is well placed to continue its rapid growth as a global leader of consumer electronics and accessories.

Risk Management

Internal control and risk management

Board	Audit Committee	Executive Committee
Sets strategic objective and agrees acceptable risk profile	Monitors risk management policies and procedures against strategic objectives	Regular review of operational and strategic risk: identification / analysis / evaluation / mitigation
Delegates authority	Receives and reviews risk register	Reporting to the Board and Audit Committee
Approves group policies and procedures		
Receives and reviews risk register		

The Group's operations expose it to a variety of risks. Effective management of these risks is essential to the delivery of the Group's business plans and strategic objectives, as well as maximising shareholder return. The Group's approach is geared towards early identification of key risks, mitigating or removing those risks by responding quickly and effectively.

The Board has overall responsibility for ensuring that risk is appropriately managed across the group and discharges its risk management processes through its executive management structure.

There is a formal Executive Committee consisting of the executive directors and other senior managers which meet regularly to discuss strategic and operational matters and associated risks to delivery of strategy. Members of the Executive Committee are regularly invited to Board meetings to discuss the operational performance of their business unit or functional area.

The Group maintains a risk management process which includes the maintenance of a risk register which is reviewed by the Board. The risk register assesses probability of risk occurrence, the potential financial impact of a risk should it crystallise and the potential reputational impact of the risk.

The Board recognises that no risk management process can fully eliminate risk but the Board believes that it has an effective framework for risk management that will recognise, minimise and mitigate the effect of risk crystallisation should it occur.

Principal risks

These risks are not intended to be an exhaustive analysis of all risks that may arise in the ordinary course of business. Each has been allocated as either affecting the business strategically, operationally or financially.

Strategic risks

Description	Risk	Mitigation	2013/2014 Activity
Acquisitions	Realising the benefits of an investment depends upon achieving the planned performance of the acquired businesses after acquisition and successful integration into the group.	The group has clearly defined criteria for suitable acquisition targets and substantial due diligence, including detailed review of business plans, is carried out before any acquisition is made. The group has extensive experience of integrating acquisitions and captures this knowledge for re-use.	On 8 February 2013, the Group acquired Bemoko Consulting Limited, an unlisted company based in the United Kingdom. The principal activity of Bemoko Consulting Limited is the provision of mobile solutions. Integration with the SDL Group is now complete and Bemoko's target milestones are regularly reviewed.
Maintaining Technology Leadership and Intellectual Property Matters	The Group fails to develop products to keep up with current market trends or is exposed to intellectual property dispute.	The Group invests in research and development and has well integrated and planned innovation roadmaps and stringent delivery checkpoints. The Group's investment in technical developments mitigates the risks to our intellectual property and know how.	No change: the Group continues to develop and expand its product and service offering. The Group's commitment to research and development is described throughout this annual report. 75 SaaS product releases in 2013. The Group invested £24.8m in R&D in the year (2012: £22.9m).

Operational risks

Description	Risk	Mitigation	2013/2014 Activity
Recruitment, retention and development of high quality staff to support the growth of the business.	Inconsistent leadership, inadequately trained staff or employee attrition that prevents delivery of strategic business objectives.	The Group endeavours to provide relevant experience for future senior or key roles, competitive remuneration structures, including long and short term incentives, and ensures that there are open and transparent assessments, development plans and promotion opportunities that encourage employees to want to build long term careers with SDL.	Appointment of Global Head of Human Resources. Global review of remuneration and incentives undertaken and updated policies put in place. Assessment of the skills required within the Group and plans in place to address identified gaps.
System interruption and business continuity planning and policies for dealing with business interruption	A significant unplanned outage that causes a major business continuity issue.	The Group focuses on business continuity planning and security of its data centre and hosting facilities. Business continuity planning embraces home working options for those that can work from home and considers alternative and distributed locations in the event that a significant office is taken out of operation. Due diligence in this area gives confidence and demonstrates a duty of care to customers and suppliers. Planning helps to safeguard SDL's reputation as well as ensuring the company meets regulatory and contractual obligations.	Investment into IT infrastructure and environment: scalable highly available email system with built-in business continuity and highly available internet connectivity with levels of resilient connectivity. Third party provider review: internet services.
Data protection, data loss and data security of both client confidential and company confidential data	Loss of data, leak of critical data or online solutions are not secure.	Solutions for specific situations are incorporated into a systematic process which: • Examines SDL's information security risks, threats, vulnerabilities and impacts; • Addresses unacceptable risks with a comprehensive policy on control or other form of risk treatment; and • Adopts an overarching management process to ensure that the information security controls continue to meet the business' information security needs on an ongoing basis. • Ongoing monitoring of availability and security incidents.	SDL maintained its certification to ISO/IEC 27001 for the UK. SDL continues to expand the scope of our certification across other products and regions.

Compliance Risk	Changes made to laws, regulations or standards worldwide could adversely impact the group's capability or the marketability of our products.	Regular reviews ensure compliance with group policies and applicable laws, regulations and standards. Changes in legislation are monitored with the help of the Group's financial and legal advisors where necessary. Our Code of Conduct guidelines are binding for all employees worldwide. They are also an expression of our values and lay the foundation for our own internal regulations.	There were no significant incidents of non-compliance with legislation or regulations in terms of financial controls, corruption or product liability in 2013.
Contract Management and Litigation Control	Customer and supplier contractual risk exposure.	The Legal function ensures that customer contracts are carefully prepared, reviewed, negotiated and approved in line with internal policies that have an escalation framework in place for referral to senior management.	Worldwide review and standardisation of legal templates completed in 2013. Regular reporting to senior management on litigation risks.

Financial risks

Description	Risk	Mitigation	2013/2014 Activity
Liquidity Risk	Cash reserves and working capital are not sufficient to repay debts as they fall due. Funding of future projects may be limited.	The Group is cash generative. The methodology for dealing with liquidity risk through strong generation of free cash flow is dealt with in note 24 to the accounts.	Emphasis on forecasting short, medium and long-term cash requirements and monitoring headroom. Continued attention on effective billing and credit controls. Review of banking facilities.
Counterparty Risk	The principle risk is exposure to RBS.	Multi-currency deposits held in a range of financial institutions.	Facility increased to £30million. Continuing regular and appropriate dialogue has taken place with RBS.
Interest Rate Risk	Profit and cash flow effects of increased interest rates on group borrowing facilities.	The mitigating strategy for this risk is covered in note 24 to the accounts.	Revolving loan facility with RBS in place – see above. Regular worldwide cash balance reviews.
Financial Reporting Processes	Inadequate systems lead to incomplete or delayed reporting.	The operational process for control over financial reporting is led by the Chief Financial Officer, who works through the Finance Leadership Team to ensure there are a full suite of policies and procedures in place that are communicated and disseminated to the operating units in SDL.	System improvements in the year include implementation of a new financial reporting system and enhancements to our sales / bookings tool.

People

Corporate Social Responsibility

Framework

SDL is committed to being a good corporate citizen in the communities in which it operates, conducting business in a socially and ethically responsible manner. SDL recognises the value it gets from its continuing program of Corporate Social Responsibility, both from the employee's perspective through improving staff engagement and morale and being an employer staff can feel passionate about and from the perspective of clients who increasingly prefer to work with companies who demonstrate core ethical values. The SDL Code of Conduct, applicable to all employees and those who work for or on behalf of SDL, is a policy document that sets out the standards of behaviour expected in relation to areas such as insider dealing, bribery and raising concerns through the whistle blowing process.

Our corporate social responsibility framework continues to target three primary areas:

- We support communities through the SDL Foundation, which aims to promote sustainable development,
- We promote and facilitate employee involvement in charitable endeavours,
- We are committed to reducing our environmental impact.

In 2013 several SDL offices participated in charitable endeavours to help people or organizations in their local communities:

- Employees in the Seattle office volunteered at a shelter for the homeless
- Employees from the Sheffield, Bristol and Maidenhead offices delivered CV workshops to young people for The Prince's Trust
- One of our employees spent 5 days at 'Rejoice' - an SDL Foundation supported charity in Thailand which provides medical, social and educational support to communities infected with and affected by HIV/Aids
- Nine SDL offices around the world co-ordinated fundraising efforts for BeadforLife through the sale of jewellery manufactured by the charity from recovered materials. BeadforLife is an SDL Foundation supported charity which strives to enable women in Northern Uganda to bring themselves out of poverty.

The Board has overall ownership of the Corporate Social Responsibility strategies and takes very seriously its broader responsibility to society and takes a progressive approach in ensuring it meets its broader social obligations. The Board continues to hold the opinion that given the nature of the Group's business activities, which do not involve heavy manufacturing, material risks from social, environmental and ethical issues are limited.

Employment Policies

Our employment policies are developed to reflect local legal, cultural and employment requirements.

The Chief Financial Officer has ultimate responsibility for Health and Safety. Specific tasks are delegated to local office managers and suitably trained individuals in the organisation.

The Group rejects all forms of discrimination and actively encourage an equal opportunities policy. We expressly prohibit discrimination on grounds such as sex, race, religion or belief, age or perceived age, sexual orientation or disability.

Culture and Communication

SDL seeks to maintain high standards and good employee relations wherever we operate. Regular and open communication is fundamental to high levels of employee engagement. During 2013, SDL rolled out company-wide global business applications and invested in key areas of the business which underpin SDL's commitment to building organizational capabilities. There are a number of mechanisms to connect and share expertise on a company-wide basis:

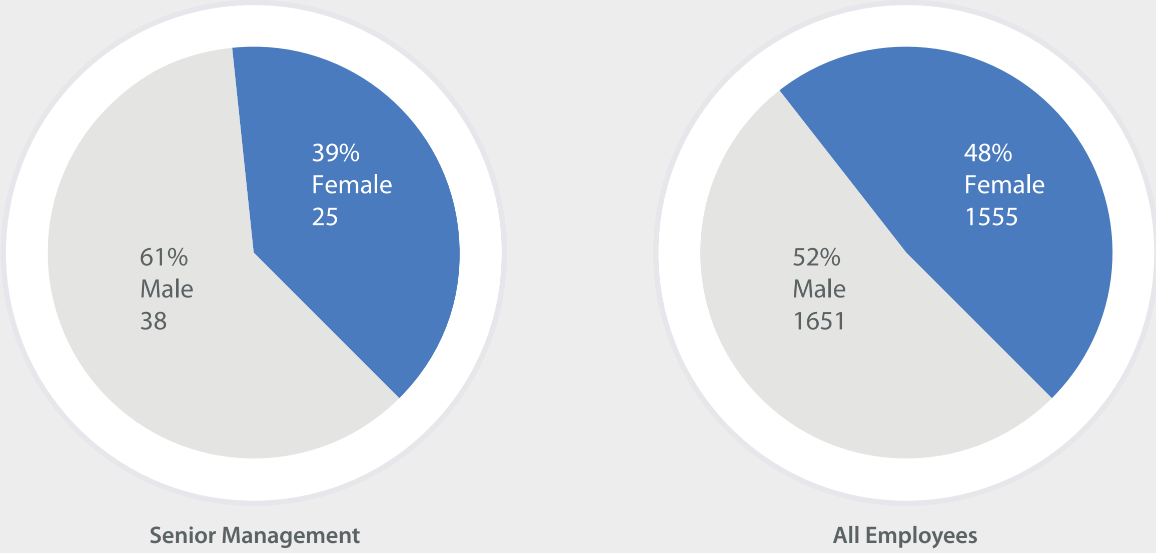
- Monthly company performance and strategy presentations by the CEO to all employees;
- Monthly newsletter sharing company-wide programs as well as local initiatives with all employees;
- Site Leaders, appointed to lead every SDL office to cascade messaging at a local level and solicit feedback;
- Works councils and other employee forums maintained and relevant performance and change issues are also discussed with our employees through team meetings, round table discussions or through works councils or other elected representative bodies;
- The Code of Conduct is embedded into employee induction and for existing employees is reviewed regularly. Our people have access to information about SDL's policies through a global intranet, with local translations and content where appropriate;
- A "whistleblowing policy" is in place which enables employees to bring matters of concern to the attention of the Senior Independent Director in confidence. No matters were raised via this route in 2013. The Board are reviewing the current procedures and practices for dealing with whistleblowing claims to ensure that potential issues are captured and addressed as early as possible.

Talent and development

SDL continues to place high emphasis on its employees and on actively developing their respective skills, and competencies, through various e-learning, training, coaching and mentoring initiatives which operate across the company.

SDL is also committed to helping employees perform at their best and achieve their full potential through ongoing training and personal development plans linked to the SDL Performance Management System.

Gender Breakdown: Senior Management and All Employees



- Employees review and agree development objectives during their annual performance dialogue with their manager;
- SDL supports overseas assignments or secondment to enable employees to benefit from a period overseas. We have also seen continued movement of employees across different operating segments in 2013, which is effective in transferring best practice and sustaining culture;
- The Management Development Training Programme was extended in 2013. Overall, a total of 132 Managers from 12 locations worldwide have taken part during the last 12 months. This programme has now helped almost 400 members of SDL's senior team to develop their Management and Leadership competence and is set to continue during 2014.
- 2013 also saw the rollout of SDL's Pathways Project Management programme with over 75 Project managers attending classes in five locations. This programme is based on the Project management Body of Knowledge (PMBOK) and is fully ISO & REP Certificated.
- In 2013, SDL launched company-wide training designed to ensure all employees understand the company's Customer Experience Management strategy and demonstrate how every employee contributes to the company's success.

The Group continues to develop progressive relationships with several language facilities of universities in the countries in which it operates and supports translation as a profession. This serves as a way for the Group to develop the translation profession as well as providing a valuable potential career outlet for students and a source of potential future employees.

The Group also actively collaborates with universities and research centres to promote research, solutions and assist with recruitment for the technology areas of the business.

- SDL Amsterdam was the industrial partner to a dozen European universities and research centres as part of the EU FP7 project HATS. The partners included Fraunhofer Institute for Experimental Software Engineering Kaiserslautern, Universität Kaiserslautern, Technische Universität Darmstadt, Chalmers University of Technology Gothenburg, Kungliga Tekniska Högskolan Stockholm, Universitetet i Oslo, Norsk Regnesentral Oslo, Universidad Politécnica de Madrid, Università di Bologna, Centrum voor Wiskunde en Informatica Amsterdam, Katholieke Universiteit Leuven, Institute of Cybernetics Estonia.
- SDL Amsterdam is a partner to European universities and research centres as part of the EU FP7 project Envisage. The partners include University of Oslo, Centrum voor Wiskunde en Informatica Amsterdam, Technische Universität Darmstadt, Università di Bologna, Universidad Complutense de Madrid.
- SDL Amsterdam has previously provided a valuable career outlet for students of European universities such as Delft University of Technology, Technical University of Vienna, University of Amsterdam, VU University Amsterdam and will continue to do so.

Disabled Employees

SDL values applications from disabled or handicapped persons and our policy is to always consider in full employment applications from disabled or handicapped persons where that person can perform the job requirements.

Where existing employees become disabled, it is the Group's policy, wherever practicable, to provide continuing employment under normal terms and conditions and disabled people are afforded the same training and development opportunities for personal growth as other employees within the organization. Under no circumstance will discrimination due to disability either direct or implied be tolerated.

SDL Foundation

In the 5 years since its establishment, the SDL Foundation has donated approximately £900,000 to some 45 projects in 27 countries. The causes have been a broad cross-section of structural and sustainable projects, enabling the recipients to better their and their family's future through income generating activities or educational and vocational training assisting them to achieve full-time employment.

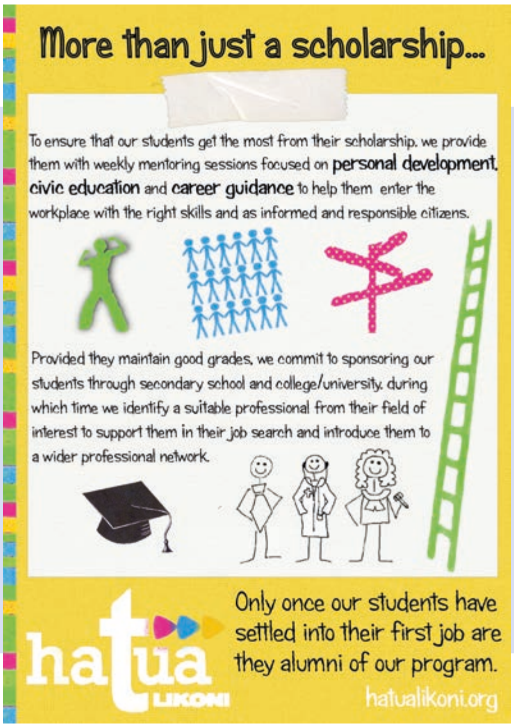
2013 saw a continuation of the Foundation's established working partnerships and the building of new relationships. The applications for these donations are made and supported by SDL employees who are encouraged to actively involve themselves with the charities. This commitment is further enhanced by the Company granting employees additional days off to participate and use their skill sets to help the disadvantaged in society.

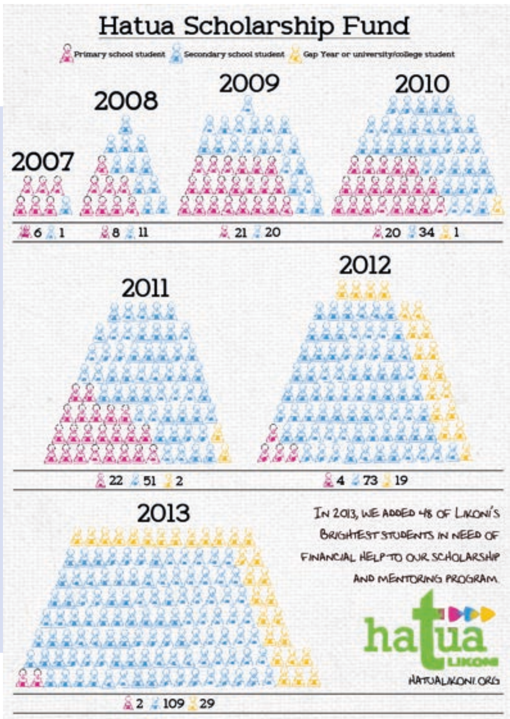
The material benefits that SDL Foundation's donations made in 2013 are illustrated by the likes of:

Hatua Likoni – providing scholarships and mentoring for some 150 of the poorest children in the slums of Mombasa. This has developed from a small orphanage, one of the Foundation's first donations, with the older children now approaching University, an impossibility without this funding.

Seeds for Africa – breakfast clubs for primary schools in Sierra Leone to ensure every child has a proper meal, encouraging attendance and stimulating performance. The overall funding is used to grow nutritious crops enabling the schools to become self sufficient as well as teaching the children agricultural skills. The Foundation's funding is specifically for water capture and storage to enable crops to be grown despite inconsistent rains.

Beads for Life – providing ox ploughs to facilitate the cultivation of three times the area and, with improved seed, significantly increase yields. In addition, 9 SDL offices around the world matched the Foundation's funding by participating in a co-ordinated fund raising through the sale of jewellery manufactured by the charity from recovered materials.





Environment

Measuring and reporting energy efficiency, carbon and greenhouse gases (GHG).

In previous years, we have reported SDL's carbon footprint for five of our major office sites. This year, we have extended the scope of our carbon reporting to include all of our offices worldwide. In calculating our global footprint, we measured the emissions from our 5 main offices and extrapolated for the remaining emissions based on company revenue. In order to improve data accuracy and completeness, we are planning to expand the scope of raw data that we collect in future years, and have also made significant improvements to our data collection and quality assurance methodology.

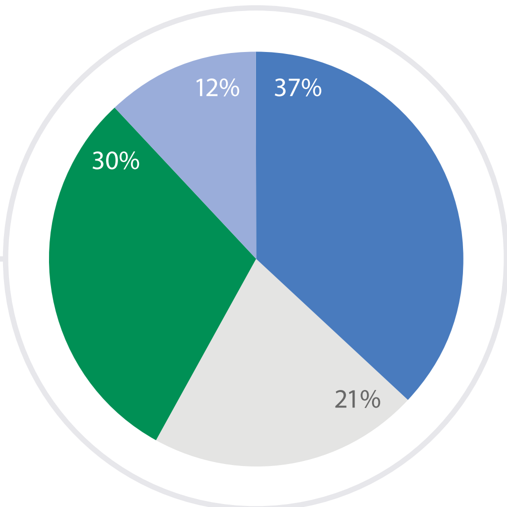
The data below covers the 12 month period ending 31 December 2013 and is presented, where possible for comparison, alongside the data for 2012.

2013 Headline Results

GHG emissions for SDL worldwide in the period were 7,291 tonnes of CO2e, comprising of the following;

Global Footprint tCO_2e

Activity	tCO_2e
Electricity	2,681.9
Travel	1,508.5
Commuting	2,235.0
Other	865.9
	7,291.3



Using an operational control approach, SDL assessed its boundaries to identify all of the activities and facilities for which it is responsible. Relevant activity data were identified and collected and provided to independent consultant, Carbon Clear. The validity and completeness of the data were checked by Carbon Clear and used to calculate the carbon emissions for SDL worldwide. The calculations performed follow the ISO14064 methodology and give an absolute and intensity factor for the Group's emissions.

The results show that GHG emissions in the period were **7,291.3 tonnes of CO2e**, comprised of the following;

Scope 1 & 2 – Combustion of fuels & operation of facilities.

- Direct Emissions (Scope 1) were **403.5 tonnes of CO2e** or 5.5% of the total.
- Indirect Emissions (Scope 2) were **2,681.9 tonnes of CO2e** or 36.7% of the total.
- Scope 3 – Additional Activity Data Reported
- Other, Indirect Emissions (Scope 3) were **4,205.9 tonnes of CO2e** or 57.6% of the total.

The table below gives a more detailed breakdown of the emissions by activity.

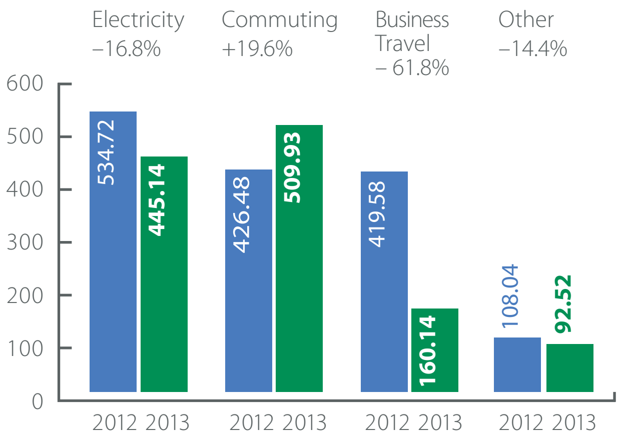
Type of Emissions	Activity	2013 tCO2e
Direct (Scope 1)	Gas	212.1
	Diesel	0.0
	Pool Cars/Company Vehicles	26.9
	Refrigerant	164.5
	Subtotal	**403.5**
Indirect Energy (Scope 2)	Purchased Electricity	2,681.9
	Subtotal	**2,681.9**
Indirect Other (Scope 3)	Business Travel	1,508.5
	Commuting	2,235.0
	Other	462.4
	Subtotal	**4,205.9**
Total Emissions (tCO2e)		**7,291.3**

Intensity metrics of SDL's global operations based on Full Time Employees (FTE) and Revenue (£m).

	Tonnes CO2e	Staff (FTE)	
SDL	7,291.3	3,177	2.3 per employee
	Tonnes CO2e	Revenue (£m)	
SDL	7,291.3	266.1	27.4 per £million of revenue

The graphs below provide a comparative analysis of 2012 and 2013 emissions for the Head Office in Maidenhead and the five main office sites. To ensure a more accurate analysis, the 2012 footprint has been recalculated using raw data from November and December 2012 (previously extrapolated). Data for most activities in 2013 cover a 10 month period and has been extrapolated to provide the full year figures.

Head office footprint 2012/2013

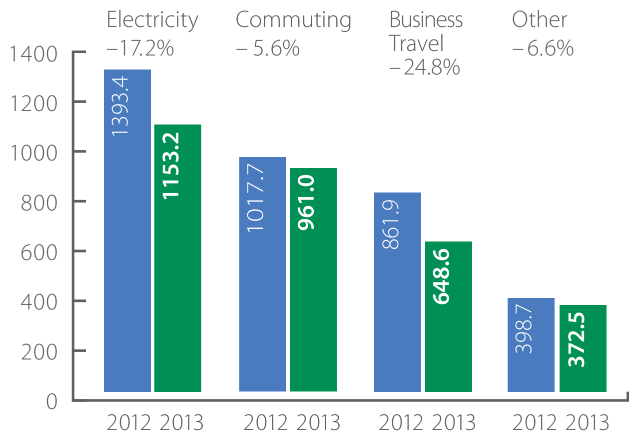


1,488.8 Total tCO_2e 2012

1,207.7 Total tCO_2e 2013

–18.9 Change %

SDL five main sites* footprint 2012/2013



*Ireland, Japan, Netherlands, UK, USA

3,671.7 Total tCO_2e 2012

3,135.3 Total tCO_2e 2013

–14.6 Change %

This Strategic Report is approved by the Board of Directors and signed on its behalf by

Dominic Lavelle
Director
18 March 2014

Governance

Chairman's overview

Our corporate governance section sets out how SDL seeks to achieve its commercial goals underpinned by a corporate governance framework which supports the highest standards of corporate behaviour. Commercial and operational risks are identified and controlled, we have strategies in place to optimise stakeholder value over time and a system of controls is in place. More important is the corporate culture and the internal business relationships which support good governance; everyone is expected to operate as One SDL and to follow the Code of Conduct, details of which are on page 15.

In 2013, the main governance challenge for the Board has been the execution of the business initiatives as discussed in the CEO's Statement. In addition, and in common with many businesses, SDL operates under tough economic conditions in many of our markets. Preserving the value of the Group's assets continues to be a priority for the Board, as well as execution of the strategies to deliver growth in the coming years.

To be effective, the Board must have full understanding of the complexities of the industries in which the Group operates. The Board provides SDL with a good balance of governance and leadership and is made up of a diversity of talents and views from various sectors and skills. For details of changes to the structure and composition of the Board during 2013 see page 25. We do not anticipate further substantial changes although the exact number of directors may rise or fall in line with the normal process of Board development and succession planning. We also support and appreciate the benefits of diversity and without seeking to set a specific goal for female representation on the Board it remains our commitment to maintain diversity, including gender diversity within the Boardroom, appropriate to and reflecting strategic imperatives the Board has agreed upon. As opportunities arise, we will appoint candidates who have the appropriate skills.

The Board regularly seeks external evaluation and, in December 2013 Lintstock Limited conducted a review of the Board's performance. The results are summarised on page 26.

David Clayton
Chairman

Compliance with the Corporate Governance Code

The UK Corporate Governance Code (the "Code") sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders.

Listed companies are required to report on how they have applied the main principles of the Code, and either to confirm that they have complied with the Code's provisions or - where they have not - to provide an explanation.

In May 2010 the FRC published a new edition of the Code which applied to financial years beginning on or after 29 June 2010. SDL has been in compliance with the Code except where the Directors considered that in particular limited circumstances, departure may be justified and explained.

A new edition of the Code was published in September 2012 and this version applies to the current, 2013 reporting period. A copy of the code is available at www.frc.org.uk.

The Board considers that during the year ended 31 December 2013 the Company complied with all the provisions of the Code with the exception of A.2.1. In November 2012 following John Hunter's resignation as Chief Executive Officer, Mark Lancaster assumed the combined role of Chairman and Chief Executive Officer. Mark Lancaster's exercise of both roles was a non-compliance with A.2.1 of the Code which requires clear division of responsibilities. This non-compliance was addressed by the Board and in July 2013 David Clayton, who meets the independence criteria set out in the Code, was appointed Chairman. Mark Lancaster remains as Chief Executive Officer ("CEO").

In line with provision C1.1 of the Code the directors consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Corporate Governance

The role of the Board

Responsibility for governance rests with the Board. It is the custodian of the Group's values, long term vision and is responsible for the overall conduct of the Group's business. It provides strategic direction and is accountable to shareholders and other stakeholders for the performance of the business.

There are certain matters which are solely for the Board's decision which are set out in a "Schedule of matters specifically reserved for decision by the Board" available on our website. Other specific responsibilities are delegated to Board Committees.

The Board's framework agenda is determined at the beginning of the year to ensure that certain items of business are reviewed at appropriate intervals. Matters considered at all Board meetings include: CEO's report on strategic and business developments; CFO's report based on the latest management accounts; an operations update and where applicable updates from the Board committees. The Board also receives regular updates, between scheduled meetings, on a range of matters.

During 2013 matters considered included:

- Business performance of the Group and individual business units
- Financial position of the Group and individual business units
- Group strategy
- Budget and long-term plans for the Group
- Shareholder feedback and engagement; reports from analysts
- Succession planning and talent
- Risk - strategic and operational
- Corporate and social responsibility including Health & Safety
- Effectiveness of the Board and the Terms of Reference of the Board Committees

To facilitate day-to-day operations of the business, the Board delegates specific management powers and responsibilities to the CEO. In addition, the business units within the Group are called upon to update the Board, giving the Board an opportunity to understand and explore issues in-depth as appropriate.

The Board understands that corporate governance is about balancing the need to drive strategy and growth whilst maintaining safeguards and controls. It is not viewed as an annual exercise set apart from the work of managing the group. Our corporate governance needs to continue to adapt so that it remains fit for purpose. Structures and processes across the Group will continue to be reviewed so that timely changes are made when necessary.

2013

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board meetings	x		x	x	x		x		x		x	
AGM				x								
Strategy/Planning meetings									x		x	
Audit Committee			x		x		x			x	x	
Nomination Committee							x					
Remuneration Committee	x			x						x		

Board of Directors

David Clayton

Chairman | Non-executive director

Tenure: 4 years (appointed December 2009)

Board Committees: Audit, Nomination and Remuneration

David Clayton was appointed non-executive Chairman of SDL PLC in July 2013. He joined SDL as a Non-executive Director in December 2009 and served as Senior Independent Director from April 2012. After a career in senior executive roles at a number of international technology companies he joined BZW where, after its merger with CSFB in 1997, he was Managing Director and Head of European Technology Research until 2004. David Clayton joined The Sage Group plc Board in June 2004 as a Non-executive Director and took up his executive role as Director of Strategy and Corporate Development from October 2007 to February 2012.

Mark Lancaster

Chief Executive Officer

Tenure: 22 years (appointed January 1992. Stepped back as CEO Feb 2011 to be Exec Chairman, returned to CEO role Nov 2012)

Board Committees: Chairman of Nomination

Mark Lancaster founded the company in 1992, having identified the need for a high-level technology and solutions provider managing business' content in global markets. Mark is a graduate in electrical and electronic engineering. He started his career as an electronics and computer design engineer before moving into project management at Lotus Development Corporation and later as international development director with Ashton-Tate. He is responsible for the strategic direction and operational management of the Group.

Dominic Lavelle

Chief Financial Officer ("CFO")

Tenure: Appointed November 2013

Board Committees: None

Dominic Lavelle is a qualified Chartered Accountant who joined SDL in November 2013. Previously, Dominic has held CFO roles within a number of private and publicly traded companies including Mothercare plc, Alfred McAlpine plc, Allders plc and Oasis plc where his roles have encompassed commercial, operational and strategic responsibilities.

Chris Batterham

Non-executive director

Tenure: 14 years (appointed October 1999)

Board Committees: None

Chris Batterham is a Chartered Accountant with significant experience in the business services sector. He was finance director of Unipalm plc, the first internet company to float on the London Stock Exchange, and, latterly, Chief Financial Officer of Searchspace Group until 2005. He currently holds a number of non-executive directorships including Office 2 Office plc, Toumaz Holdings Ltd, Iomart plc and is Chairman of Eckoh plc.

Joe Campbell

Non-executive director | independent

Tenure: 8 years (appointed July 2005)

Board Committees: Nomination, Chairman of Remuneration

Joe Campbell joined SDL as a non-executive director on 1 July 2005 following the acquisition of Trados Inc where he was CEO. Prior to Trados, he was Chief Operating Officer of iManage, a publicly traded company on the Nasdaq. He adds a considerable level of expertise in enterprise software sales and experience of the US financial markets and M&A activity.

Mandy Gradden

Non-executive director | independent

Tenure: 2 years (appointed January 2012)

Board Committees: Chairman of Audit, Remuneration

Mandy Gradden is an experienced corporate CFO with more than 20 years financial and senior management experience. In January 2013 she was appointed Group CFO of Top Right Group the privately owned B2B media and events business. Previous roles include: CFO of the privately owned Torex, the retail technology firm; CFO at the FTSE 250 business and technology consultancy, Detica; Director of Corporate Development at Telewest Communications; and Group Financial Controller at Dalgety. She began her career at Price Waterhouse, where, in 1992, she qualified as a Chartered Accountant.

Alan McWalter

Non-executive | Senior independent director

Tenure: Appointed March 2014

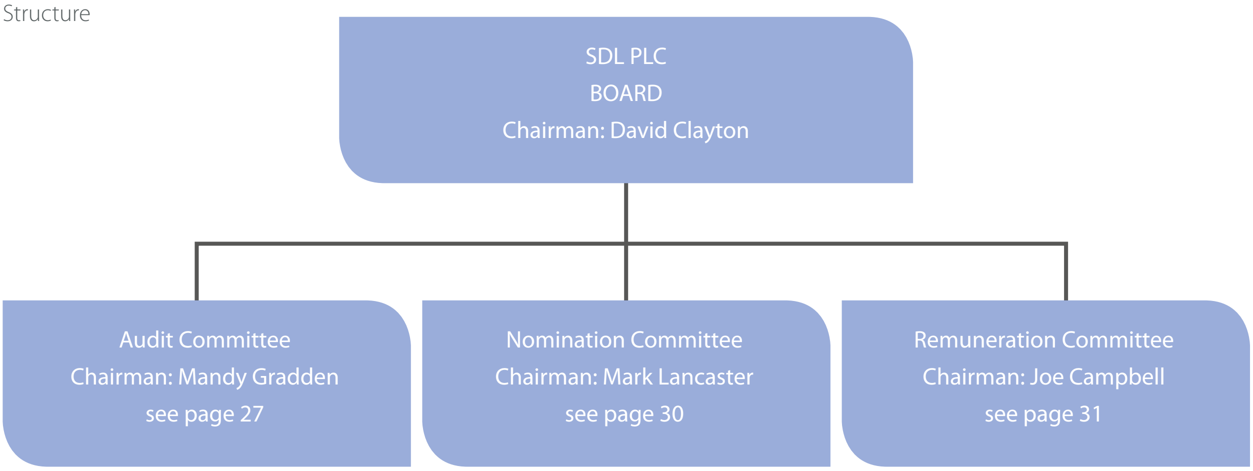
Board Committees: Audit and Remuneration

Alan McWalter is currently Chairman of Churchill China plc, and the Senior Independent Director at Dignity Plc. He also holds non-executive director positions with several private companies. Prior to this Mr McWalter has held non-executive roles in Trafficmaster Plc, Cattles Plc and Timeweaver Plc and been an executive director in a number of major companies including Thomson Consumer Electronics, Kingfisher and Marks & Spencer.

None of the directors have been accused of, or been reported as, acting in breach of professional conduct by any regulatory or statutory authority.

2013 Dashboard

Structure



Board composition as at 31 December 2013

	Date first elected by shareholders	Years from first election to the 2014 AGM	Considered to be independent by the Board
Non-executive directors:			
David Clayton	April 2010	4	Yes
Chris Batterham	April 2000	14	Yes*
Joe Campbell	April 2006	8	Yes
Mandy Gradden	April 2012	2	Yes
Alan McWalter	Standing for first election in April 2014	–	Yes
Executive directors:			
Mark Lancaster	April 2000		n/a
Dominic Lavelle	n/a		n/a

*The Nomination committee noted that Chris Batterham has served for 14 years as a non-executive director and under the Code is no longer considered to be independent. The Board has considered the matter carefully and believes that Chris Batterham continues to demonstrate the qualities of independence in carrying out his role, supporting the executive directors in an objective manner. His length of service and resulting experience and knowledge of the Company is of great benefit. The Board also noted Chris Batterham's resignation from the Audit Committee on 1 July 2013, resulting in a fully independent Committee membership. The Nomination Committee will keep his independence under review.

John Matthews who resigned from the Board as a non-executive director in April 2012 continues to work with the Company John Matthews was a non-executive Director from 2002 to 2012. He chaired the Audit and Remuneration Committees and, at the time of his retirement from the Board, was the Senior Independent Director. He had a career specialising in Corporate Finance ahead of then moving into senior roles in industry. In recent years he has held a number of outside directorships as Chairman (Crest Nicholson, Regus) or Senior Independent Director (Rotork, Diploma, Minerva, Center Parcs). He is a qualified Chartered Accountant. The Board values John Matthews' financial expertise and international experience.

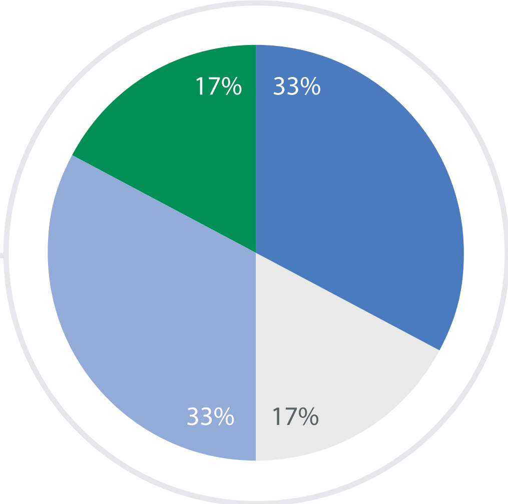
The Nomination Committee keep the balance and independence of the non-executive directors and its advisors under review. Norman Broadbent worked with the Nomination Committee in 2013, analysing the skills and succession needs of the Board to identify two new non-executive directors who will add strength to the Board and fit the culture. Alan McWalter (see bio on page 23) joined SDL in March 2014 and Glenn Collinson will join the Board in June 2014.

Our non-executive directors are appointed for an initial period of three years, subject to remaining independent and their re-election by the shareholders annually at the Company's Annual General Meeting ("AGM"). The Board makes a careful assessment of the time commitment required from the Chairman and the non-executive directors to discharge their roles properly. This is discussed with potential candidates as part of the recruitment process and the time requirement is included in their engagement letters.

The terms and conditions of appointment of our non-executive directors are available for inspection at the Company's registered office and at our AGM.

Board composition as at 31 December 2013

- Executive Directors
- Independent chairman
- Independent non-executive directors
- Non-independent non-executive directors



Changes during 2013

July 2013

David Clayton was appointed non-Executive Chairman of the Company with effect from 1 July 2013, taking over the role from Mark Lancaster. Mark Lancaster had relinquished the role of CEO in February 2011 and returned to the combined role of Chairman/CEO in November 2012. David Clayton's appointment continued the Company's process of developing best governance practice and allowed Mark Lancaster to focus entirely on his role as CEO during an important stage of the Company's development.

Audit Committee: Mandy Gradden was appointed Chairman succeeding David Clayton and Chris Batterham resigned as a member.

Remuneration Committee: Joe Campbell was appointed Chairman, succeeding David Clayton.

November 2013

On 25 November 2013, Dominic Lavelle was appointed as CFO of the Group, succeeding Matthew Knight who announced his intention to step down earlier in the year. The Board thanks Matthew Knight for his work and contribution to SDL and wishes him well for the future.

Attendance at scheduled meetings of the Board and its Committees during 2013

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Current directors:				
Chairman:				
David Clayton	7/7	5/5	1/1	3/3
Executive directors:				
Mark Lancaster	7/7	5***	1/1	3***
Dominic Lavelle	1*	1*	–	–
Non-executive directors:				
Chris Batterham	6/7	5/5**	-	3***
Joe Campbell	6/7	-	1/1	3/3
Mandy Gradden	7/7	5/5	-	3/3
In attendance:				
Consultant: John Matthews	7***	-	-	2***
Directors who stepped down in 2013:				
Matthew Knight	7/7	5***	-	2***

*Dominic Lavelle attended the November Audit Committee and Board meetings ahead of his appointment on 25 November 2013.
**Chris Batterham was a serving member of the Audit Committee for two of the meetings and invited to attend the remaining three.
***Attendance by invitation.

Board Performance

Director induction

New directors receive a personalised induction programme, tailored to their experience, background and particular areas of focus which is designed to develop their knowledge and understanding of the Group's business.

Professional development and training

The Nomination Committee reviews the directors' skills and experience against those needed by the Board to oversee and support the Group's current and future operations. These reviews support the approach to succession planning as well as the ongoing development of the Board's knowledge and skills.

Keeping up to date with key business developments is achieved by:

- Presentations from the executives. The divisional CEOs delivered presentations on the technology and business models of their sectors
- Meetings with analysts and major shareholders at the technology teach-ins
- Financial and regulatory updates.
- Directors have the opportunity to identify their own training and development needs as part of the annual evaluation process.

Professional Advice

Directors are given access to independent professional advice at the Company's expense when the directors deem it necessary in order for them to carry out their responsibilities. The directors also have access to the advice and services of the Company Secretary.

Board evaluation

Each year the performance of the Board and its Committees is evaluated. For the year ending December 2013 the Board performance evaluation was conducted by Lintstock Limited an independent consultancy who was engaged in 2012 on a three year Board Development programme.

The evaluation took place over December 2013 and January 2014 and the findings presented at a Board meeting in March 2014.

The first stage of the review involved Lintstock engaging with the Chairman and the Company Secretary to set the context for the evaluation and to tailor the questionnaires used to the specific circumstances of SDL. All respondents were then requested to complete an online questionnaire addressing the performance of the Board and its Committees, the Chairman and individual Directors. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

Lintstock subsequently produced a report which addressed the following areas:

- The composition of the Board was reviewed, and the interface between the Board and senior management was assessed, as was the atmosphere in the boardroom.
- The management of time at the Board was considered, and the annual cycle of work and the Board's agenda were both reviewed.
- The quality and timeliness of the documentation provided in advance of meetings were reviewed, as were the presentations made by management to the Board.
- The Board's management of the main risks was reviewed and the oversight of strategy was assessed. The Board members' views as to the top strategic issues facing the company were identified.
- The succession planning for Executive Directors and for management beneath the Board, and the structure of the company at senior levels, were assessed.
- The composition and performance of the Committees of the Board were considered in the review, as was the performance of the Chairman and that of individual Directors.

As a result of the exercise, amongst other things, the Board agreed to review its agenda and the information provided to the Board, review the strategic planning processes, and consider additional Non-Executive appointments. The governance processes around the appointment of a Non-Executive Chairman and the change to the role of the Chief Executive, and the implications this has on Board oversight, were also addressed.

It is envisaged that Lintstock will conduct an appraisal next year to follow up on the issues raised in this year's process. The review content for each subsequent evaluation is designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the review are implemented and that year-on-year progress is measured.

Diversity

Without seeking to set a specific goal for female representation on the Board, it remains the Board's commitment to develop and maintain a diverse, including gender diverse, membership within the boardroom, appropriate to and reflecting the global nature of the Company and the strategic imperatives the Board has agreed upon. The Board recognises the benefits of the right balance of independence, skills, knowledge and experience. See diversity information on page 16.

Indemnification

The Company maintains liability insurance for its directors and officers which is renewed annually. Deeds of indemnity are also in force under which the Company has agreed to indemnify the directors, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company or any of its subsidiaries.

Board Committees

The Board is supported in its work by the following key committees:

- Nominations Committee;
- Audit Committee; and
- Remuneration Committee

The terms of reference of each of these committees are regularly reviewed and available on the Company's website at www.sdl.com. Further details of these committees can be found in their reports on pages 27-31.

The Committees are provided with the necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary or her delegate acts as secretary to the committees. See above for the calendar for meetings of the Board and its committees.

Audit Committee

"We are mindful of the need to regularly assess our systems against the Group's needs and the changing regulatory environment and adapt as necessary. As members of the Audit Committee we share, as appropriate, leadership and guidance across other Board committees on which we sit; we challenge management not only about the integrity of the financial reporting but also about the appropriateness of the Group's governance on a range of compliance matters."

Mandy Gradden
Chairman, Independent non-executive director

Membership in 2013

Mandy Gradden – Chairman, Independent non-executive director. Appointed Chairman on 1 July 2013.

David Clayton – Independent non-executive director. Resigned as Chairman on 1 July 2013 and remains as a member of the Committee.

Chris Batterham resigned as a member of the Committee on 1 July 2013.

Membership in 2014

Mandy Gradden – Chairman
David Clayton
Alan McWalter – appointed in March 2014
Glenn Collinson – to be appointed in June 2014.

Key Objectives:

To promote and maintain effective governance over:

- the appropriateness of the Group's financial reporting;
- the performance of the external auditor; and
- the management of the Group's system of internal control including internal audit activities, business risks and related compliance activities.

Responsibilities

- Reviewing financial results announcements, financial statements and any other formal announcement relating to financial performance and their compliance with relevant statutory and listing requirements;
- Reporting to the Board on the appropriateness of accounting policies and significant judgments;
- Advising the Board on the clarity and completeness of disclosure in the Group's annual financial report and whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- Assess the adequacy and effectiveness of the Group's internal financial controls and risk management;
- Overseeing the relationship with the external auditor;
- Carrying out any in-depth reviews of specific areas of financial reporting, risk and internal control, as required by the Committee.

The Committee

The Audit Committee is comprised of independent non-executive directors: Mandy Gradden (Chairman), David Clayton and Alan McWalter. On 1 July 2013 Chris Batterham stood down and Mandy Gradden assumed the role of Chairman. Each of the Committee members has, through their other business activities and/or professional qualifications, a wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Board considers that Mandy Gradden has recent and relevant financial experience, as required by the Code.

Meetings and Activities in 2013

The Audit Committee met 5 times during 2013. The external auditor, KPMG Audit Plc ("KPMG"), is invited to every meeting. Executive directors, senior members of management and advisors are invited to attend meetings as appropriate. The Committee regularly meets separately with KPMG and the Chief Financial Officer.

The Committee assists the Board in fulfilling its responsibilities in relation to the Group's financial reporting requirements, risk management and assessment of internal controls. Following the publication of the revised version of the UK Corporate Governance Code, which applies to financial years commencing on or after 1 October 2012, the Committee advises the Board on whether it believes the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The Committee's terms of reference have been amended to reflect this and can be found on our website at www.sdl.com/aboutus/investors/terms-of-reference.html.

As part of the formal annual Board evaluation the Committee's effectiveness was subject to external review in 2013. Details of the process can be found on page 26.

Matters considered by the Committee in 2013 and up to the date of approval of this annual report included:

Committee Meeting

Date	Key Items
4 March 2013	Annual results • External auditor's report • Review of preliminary results and draft announcement Draft Annual report Review of accounting policies assumptions, judgments and estimates
21 May	Scope of Interim Audit External Auditor fees Update from internal audit/site visit Committee composition and succession Whistleblowing policy
31 July	Interim results • External auditor's interim report • Review of interim preliminary results and draft announcement Non-audit fees Key Judgments Terms of Reference
22 October	External auditor Audit Strategy report Group Tax matters review with management
22 November	Consideration of plans for preparation of annual results Update from internal audit/site visit Evaluation of the Committee's performance (undertaken in January 2014)
4 March 2014	Annual results • External auditor's report • Review of preliminary results and draft announcement Draft Annual report Review of accounting policies assumptions, judgments and estimates

Financial Reporting

We reviewed and challenged, with both management and the external auditor, the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- The quality and acceptability of accounting policies and practices;
- The clarity of disclosures and compliance with financial reporting standards and governance reporting requirements;
- Material areas in which significant judgments have been applied or there has been discussion with the external auditor;
- Whether the annual report and accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- Any correspondence from regulators in relation to our financial reporting.

The significant judgments considered by the Committee in relation to the 2013 accounts were:

- **Technology revenue recognition:** Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group. There is a key area of judgment in the timing of this recognition and resulting deferred revenue on software and support contracts. The Committee have considered the associated risks presented by the external auditor as part of the 2013 half year and 2013 full year audit. The Committee have concluded that the timing of recognition continues to be in line with IFRS requirements and is comfortable that the judgments made are appropriate.

- **Goodwill impairment**: The carrying amounts of the Group's goodwill and acquisition-related assets have been reviewed to determine whether there is any indication of impairment. The key judgments are in determining the cash generating units ("CGU") and assumptions in underlying impairment models. The Committee has reviewed management reports which were part of the audit by KPMG. Following review and discussion with management and the external auditor, the Committee is satisfied that the impairment charge of £20.4m recorded in the Content and Analytic Technologies CGU is an appropriate judgment and furthermore the Committee concurs with management's assessment that the value in use of the other CGUs exceeds the carrying value of the goodwill and intangible assets. See also notes to accounts on page 70.
- **Deferred taxation**: The Committee addressed taxation issues through reports from senior management and a process of challenging the appropriateness of management's views including the degree to which these were supported by professional advice from external legal and other advisory firms. This includes, in particular, management's judgments on the recognition of deferred tax on losses. See also notes to accounts on page 64.

Internal control and risk management

The Group's assessment of its principal risks and uncertainties are set out on pages 12-14.

Key elements of the Group's internal financial control framework and procedures include:

- Regular meetings of the executive team with the executive directors to review operational aspects of the business;
- Defined responsibilities and limits of authority, including a schedule of matters that are required to be brought to the Board for decision;
- A comprehensive Group-wide system of financial reporting, budgeting and cash forecasting and control through which financial accounts are prepared and submitted to the Board monthly;
- Regular preparation and, when appropriate, update of profit and cash flow forecasts, to monitor actual against expected performance;
- Regular meetings of the Board and Audit Committee at which financial information is reviewed and business risks are reported upon and monitored; and
- Reviews by the Group's Finance Director and/or Financial Controller on the outcomes of the Site Visit program where specific business units are selected for audit of compliance risks and vulnerabilities in consultation with the Audit Committee. The main aims of the Site Visit program are to ensure the:
    - Operation of an effective system of internal control being maintained at Group and country levels;
    - Production of accurate, relevant and timely financial information by each of the countries;
    - Safeguarding of the Group's assets through physical controls and segregation of duties; and
    - Proactive risk identification and mitigation though appropriate monitoring and controls.

Reports of the results of these Site Visits are presented to and considered by the Audit Committee.

A review by the Audit Committee and the Board of the effectiveness of the Group's risk management and internal control systems is undertaken at least annually.

Internal Audit

At the November 2013 Committee meeting the need for and potential scope of an Internal Audit department was considered. The Committee decided that the current procedures and escalations on risk, control and governance from the risk management framework together with the external auditor, are sufficient assurance and no internal audit function is required at this time. These arrangements will be kept under review.

External Audit

The Committee received a detailed audit plan from KPMG at the start of the audit cycle, identifying their assessment of key risks. For 2013 the primary risks identified were in relation to:

- Technology revenue recognition
- Goodwill impairment
- Tax charge - appropriateness of tax provisions and the recognition or otherwise of deferred tax assets

The Committee held private meetings with the external auditor at the March and July Committee meeting to provide additional opportunity for open dialogue and feedback without management being present.

The Committee considered the nature, scope, results and costs of the audit as well as the resources deployed and the conduct of the audit. The Audit Committee keeps under review the cost effectiveness, independence and objectivity of the external auditors and has adopted a formal written process in this regard.

Non-audit services above £20,000 are sanctioned formally by the Audit Committee evaluating the nature of the work and fees involved and the materiality of the fees. Expertise being provided is very closely monitored as are any non-audit relationships between the Group and the Auditor. Other accounting firms are also used for non-audit services, including taxation advice and compliance where it is cost effective and efficient to do so. The objective of maintaining a policy on non-audit services is to ensure the external auditor's independence. The external auditor is not engaged to perform any service where the output is then subject to their review as external auditor. The total sum invoiced to the Group by its external auditor for non-audit services provided in 2013 was £313,000 representing 94% (2012: £285,000, 82%). The fee for 2013 audit services was £334,000 (2012: £349,000).

At the end of 2009 the Committee put the audit and taxation affairs of the Group out to tender, a recommendation was made to the shareholders at the 2010 Annual General Meeting and KPMG were duly appointed. The Committee is satisfied with the auditor's effectiveness and independence and has not considered it necessary to require an independent tender process at this time.

Our auditor, KPMG Audit Plc has instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming AGM of the Company.

Nomination Committee

"An appropriate range of skills, knowledge and experience on our Board is key to achieving the Group's objectives and sustaining performance over the long term."

Mark Lancaster
Chairman

Membership in 2013

Mark Lancaster – Chairman
David Clayton
Joe Campbell

Membership in 2014

Mark Lancaster – Chairman
David Clayton
Joe Campbell until the AGM in 2014

Key Objectives:

- Ensure the Board has an appropriate structure, size and composition to discharge its responsibilities;
- Identify and nominate candidates to fill board vacancies; and
- Review the leadership needs of the organisation to ensure the continued ability to compete in the marketplace.

Responsibilities

- Review structure, size and composition of the Board.
- Leads the process to identify and nominate new Board appointment candidates.
- Reviews Board succession planning and leadership needs.
- Reviews current structure of the Board and its committees including diversity and balance of skills and the independence of non-executive directors.
- Oversees performance evaluation of the Board, its committees and individual directors.
- Consider any conflicts of interest reported by directors of the Group.

The Committee

The Committee consists of Mark Lancaster (as Chairman), David Clayton and Joe Campbell. There were no changes in the membership throughout 2013.

Meetings and Activities in 2013

In a year of planned and rapid change for both executive management and the Board, the Committee has been conscious of the need to assess and manage the risks that such change brings and to ensure that the only risks taken are those essential to improved performance.

The Committee has supported the CEO in developing his executive team throughout the year and this process is ongoing but substantially complete.

In the first quarter of 2014, the Committee oversaw the appointment of the following new non-executive directors: Alan McWalter who joined the Board on 1 March 2014 and Glenn Collinson who will be joining the Board on 1 June 2014.

The Committee considers a number of factors when making new appointments, including what the new director will add to the balance of skills and experience and whether the director will be able to commit sufficient time to discharge their responsibilities. An external executive search company, Norman Broadbent was commissioned to shortlist candidates with suitable skills and experience.

The Board acknowledges that diversity extends beyond the boardroom and supports management in their efforts to build a diverse organisation. It endorses the Company's policy to attract and develop a highly qualified and diverse workforce and to ensure that all selection decisions are based on merit and that all recruitment activities are fair and non-discriminatory.

During the year consideration was also given to:

- Review of re-election of the directors at the AGM – it was noted that Chris Batterham has served for more than fourteen years as a non-executive director and under the Code is no longer considered to be independent. The Committee has considered the matter carefully and believes that Chris Batterham continues to demonstrate the qualities of independence in carrying out his role, supporting the executive directors in an objective manner. His length of service and resulting experience and knowledge of the Company is of great benefit. The Committee also noted Chris Batterham's resignation from the Audit Committee on 1 July 2013, resulting in a fully independent Audit Committee membership. The Nomination Committee will keep his independence under review.
- The results of the Board evaluation for 2013 (see the Corporate Governance section for details).
- Challenges and requirements for succession and leadership, and reviewed the plans to ensure the Group has the right capacity for the future.

Remuneration Committee

Directors' Remuneration Report

"Remuneration policies are designed to support the strategic direction of the business. We are mindful that they are comprehensible to shareholders and in line with economic conditions."

Joe Campbell
Chairman, Independent non-executive director

Membership in 2013

Joe Campbell – Chairman, Independent non-executive director. Appointed Chairman on 1 July 2013.

David Clayton – Independent non-executive director. Resigned as Chairman on 1 July 2013 and remains as a member of the Committee.

Mandy Gradden – Independent non-executive director.

Membership in 2014

Joe Campbell – Chairman up to the AGM in 2014.

Glenn Collinson – incoming Chairman.

David Clayton – plans to step off the Committee on the appointment of the new Chairman.

Mandy Gradden

Alan McWalter

Key Objectives:

- Assess and recommend to the Board policies for executive remuneration.
- Approve the design and performance criteria of share-based-plans.

Responsibilities

- Determine, on behalf of the Board, the broad policy on remuneration of the Chairman, Chief Executive and executive directors.
- Operate within recognised principles of good governance.
- Prepare an annual report on directors' remuneration including policy disclosures.
- Ensure balance between long and short term incentives is appropriate and aligned to strategic goals.

The Committee

The Committee is comprised entirely of independent non-executive directors: Joe Campbell (Chairman), David Clayton, Mandy Gradden and Alan McWalter (who was appointed in March 2014). David Clayton was Chairman of the Committee until 1 July 2013 when he stepped aside in recognition of the developing best practice of Chairmen of Boards not serving on their Remuneration Committee. David will step down from the Committee in June 2014 on the appointment of Glenn Collinson.

The Board determines the remuneration of the non-executive directors and also has responsibility for electing persons to the Board. The Remuneration Committee does not have the authority to employ or dismiss directors.

The Committee's effectiveness is reviewed on an annual basis as part of the Board evaluation process.

Meetings and Activities in 2013

- Review of the executive directors' annual bonus payout for 2013
- Carried out benchmarking exercise on executive director and senior management remuneration packages;
- Established the executive directors' bonus for 2014;
- Established a bonus structure for senior management;
- Reviewed the vesting criteria for share-based awards made in 2010;
- Approved share-based awards for 2013;
- Met with shareholders and reviewed feedback on executive remuneration; and
- Reviewed revised remuneration reporting regulations and prepared the Directors' remuneration report.

External advisors

The Remuneration Committee obtains advice from various independent sources as appropriate. The Committee's advisors in 2013 were:

- CJW Remuneration Consultants for advice on: the use of share incentives within the Group; plan design; market practice; and governance.
- PricewaterhouseCoopers LLP (PWC) as independent assessors for testing the vesting criteria (TSR and EPS) of share-based incentives.
- Towers Watson for: market data and benchmarking executive rewards; advice on market practice; and reward consultancy.

The Committee Chairman has direct access to the advisors as and when required. The advice is used by the Committee as a guide, providing an alternative view and not a substitute for thorough consideration of the issues by each Committee member.

Directors' Remuneration Report

Letter from the Remuneration Committee Chairman

Dear Shareholders

It is my pleasure to present the Directors' remuneration report for the year ended 31 December 2013. This report has been prepared by the Remuneration Committee and approved by the Board. It sets out how we have approached the task of supporting the Group's strategy and the decisions we have made.

The Committee endorses and supports the UK Department for Business, Innovation & Skills' drive to improve the transparency of reporting of Directors' remuneration. In our 2012 report, we made changes to improve the quality of disclosure and were pleased to receive 97.9 per cent of shareholder votes in favour.

2013 was a year of change and restructuring for the Group and the Remuneration Committee has sought to ensure that the remuneration policies remain designed to support the strategic direction of the business. We are mindful that the policies which drive the required behaviour remain equitable, comprehensible to shareholders and in line with economic conditions. The SDL remuneration structure remains simple, made up of a base salary, pension, benefits, a bonus plan and a single long-term incentive plan.

It remains a core objective of our Remuneration policy that we can attract, retain and motivate high quality individuals who can execute our business strategy. We believe that our Remuneration Policy and the link between remuneration and individual and business performance continue to be appropriate and are in the interests of shareholders.

Details of the remuneration decisions for 2013 are set out in the report below. In summary, 2013 was focused on re-building SDL - investing in systems and infrastructure to support our long-term business goals. As a consequence, our financial performance fell short of the targets set at the beginning of the year and reduced bonuses were paid in 2013 to the senior management team. The long-term incentives that were due to vest in 2013 also lapsed as performance target were not met. In respect of annual bonuses for Mark Lancaster and Matthew Knight, this resulted in no bonus being made to them, despite their having achieved against their personal objectives. The Committee believes that this demonstrates that our remuneration policy is effective in aligning pay with performance.

The report is in two sections: the Directors' remuneration policy and the Directors' annual remuneration report which details how our policy was implemented for the year ended 31 December 2013.

At the 2014 AGM, the Directors' remuneration policy report will be put to a binding shareholder vote and the Directors' annual remuneration report will be put to an advisory shareholder vote. We propose that the Directors' remuneration policy will apply from the 2014 AGM, subject to obtaining shareholder approval.

The Remuneration Committee takes an active interest in investors' views and was delighted that last year the remuneration report received a 97.9% vote in favour. Out of the 63.4 million votes that were cast, 2.1% were against and 2.5% abstained.

I look forward to receiving your support for the resolutions at our forthcoming AGM.

Joe Campbell
Remuneration Committee Chairman

Directors' Remuneration Policy

Policy overview

The Remuneration Committee (the Committee) determines and agrees with the Board, the Company's policy on the remuneration of the Board Chairman and Executive Directors. The Committee's terms of reference are available on the Company's website.

In determining the Remuneration Policy, the Committee takes into account the following:

- the need to attract, retain and motivate talented Executive Directors and senior management;
- consistency with the remuneration approach applied to employees throughout the Group; and
- external comparisons to examine current market trends and practices and equivalent roles in similar companies taking into account their size, business complexity, international scope and relative performance.

Shareholder views

The Committee regularly compares the Company's Remuneration Policy with shareholder guidelines, and takes account of the results of shareholder votes on remuneration.

If any material changes to the Remuneration Policy are contemplated, the Chairman of the Board and other non-Executive Directors consult with major shareholders about these in advance.

Details of votes cast for and against the resolution to approve last year's Remuneration report are provided in the annual report on remuneration section of this report.

Future policy table

The table on pages 33 and 34 summarises the key aspects of the Company's Remuneration Policy for Executive Directors effective from the 2014 AGM (subject to shareholder approval) but has been informally effective since 1 January 2014 in any event. This policy remains unchanged from the year ended 31 December 2013. See pages 36 and 37 for details of payments made in 2013. There has been very little change to our policy beyond adjusting certain performance measures for the annual bonus to reflect the new strategic priorities for the Group.

2014 Remuneration policy

This section describes SDL's forward-looking remuneration policy for executive Directors, explaining how each element of executive Directors' remuneration package operates. Total remuneration packages for executive Directors are made up of salary, pension contributions, benefits, annual bonus and long term incentive plan awards.

Development of our remuneration policy

The remuneration policy for our executive directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group. The remuneration arrangements for employees below the main Board reflect the seniority of the role and local market practice and therefore the components and levels of remuneration for different employees will differ from the policy for executives as set out below.

Consideration of pay and conditions for the wider Group

Many aspects of the remuneration policy for executive Directors are consistent with the reward strategy for all colleagues across the company. However, below executive level, pay and benefits are lower in aggregate, driven by market comparatives and the nature of the roles. Core principles and features of broader remuneration practices are discussed later in this report.

Communication with our shareholders

The Remuneration Committee is committed to an ongoing dialogue with shareholders and seeks the views of significant shareholders when any major changes are being made to remuneration arrangements. The Committee takes into account the views of significant shareholders when formulating and implementing the policy.

	Purpose	Operation	Maximum opportunity	Performance
Executive directors				
Salary	To attract and retain the best talent.	Base salaries are normally reviewed annually with reference to market data (on which the Committee receives independent advice from Towers Watson).	Increases are made only exceptionally to reflect market movements and changes in job responsibilities.	Salaries are reviewed against level of skill, experience and scope of responsibilities of the individual and business performance, economic climate and market conditions; and peer group of comparably sized companies and other software businesses.
Taxable benefits	To aid retention and remain competitive within the market place.	Car Allowance Private medical insurance Life assurance Health insurance Other benefits may be offered if considered appropriate and reasonable by the Committee.	These are set at a level which the Remuneration Committee considers appropriate when compared with comparable roles in companies of a similar size and complexity. See pages 36-37 for details of payments in 2013.	n/a
Pension	To aid retention and provide competitive retirement benefits.	Participation in defined contribution pension arrangements. Executive directors may choose to participate or receive a cash allowance in lieu of pension.	The company makes contributions to the personal pensions of the CEO and CFO equivalent to 12.8% and 12% of salary respectively.	n/a
Annual bonus	Motivate and reward achievement of challenging annual targets that support the company's short and mid-term strategy.	Measures and targets are set annually and payout levels are determined by the Remuneration Committee after the year end based on performance against those targets. The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the Committee, reflect overall business performance or individual contribution. The bonus is delivered in cash. See below for further details.	Value of annual bonus is limited to a percentage of salary. For maximum performance: 150% of salary. For acceptable performance: between 50% and 100% of salary.	The performance objectives are Group profit and revenue targets with an overall multiplier for sales bookings growth. Further details of each executive director's 2013 objectives are provided in the implementation of directors' remuneration section. The measures that will apply for the financial year 2014 are given in the following report

	Purpose	Operation	Maximum opportunity	Performance
Long-term incentive plan	To motivate and incentivise delivery of sustained performance linked to the Company's strategy; aligning Executive Directors' interests with those of shareholders.	Awards of share-based incentives are made annually, vesting over 3 years. Vesting is subject to comparative Total Shareholder Return ("TSR") and Earnings Per Share ("EPS") targets. The Remuneration Committee has discretion to decide whether and to what extent targets have been met, and if an exceptional event occurs that causes the Committee to consider that the targets are no longer appropriate, the Committee may adjust them.	Maximum award of 150% of salary. The Committee retains the discretion to make awards up to the individual limit under the plan and would expect to consult with significant investors if awards were to be made routinely above current levels.	2011 Plan – approved by shareholders at the AGM on 20 April 2011 Performance period is 3 years. TSR - must at least match that of the FTSE 250 index over the performance period. EPS - must increase by at least inflation + 3% per annum during the performance period by reference to the Consumer Prices Index
Sharesave	A scheme offering employees in specific territories the opportunity to build a shareholding in the Company.	Executive Directors participate on the same basis as all employees. Monthly savings are made over a three year period linked to the grant of an option over SDL shares. Options under the plan are granted at up to a 20% discount to market value.	Maximum Save As You Earn saving of £500 per month or foreign currency equivalent.	None
Retention arrangement	To allow the Company to retain high calibre executives.	The Committee may make one-off awards to Executive Directors in exceptional circumstances, but only when in the best interests of the Company/shareholders. Any awards would be subject to continued employment/performance conditions, as appropriate. Shareholders will be consulted before any such award wherever practicable. Shareholders will be informed at the time of any such award.	Dependent on circumstances.	n/a
Chairman & non-executive director fees	To provide an appropriate reward to attract and retain high-calibre individuals. Non-executive directors do not participate in any incentive scheme.	Fees are reviewed periodically. The Chairman is paid a single consolidated fee. The non-executive directors are paid a basic fee plus additional fees for chairmanship of a Board Committee or taking on the role of Senior Independent Director. Fees are paid in cash.	Fees are disclosed in the Directors' remuneration report.	None.

Notes to the remuneration policy table

Annual Bonus: The 2013 bonus plan was based upon the achievement of Group revenue and profit before amortisation and taxation (PBTA) with an overall multiplier based on the growth in licence sales bookings ("bookings"), measured against the budget approved by the Board for the year.

Revenue and profit targets are given equal weightings and operate independently. For a minimum payout, bookings must have increased, compared with 2012 bookings, by seven per cent. There is no bonus payment if bookings growth is below seven per cent. The bookings multiplier is linear; zero below seven per cent and scaling up to one at fifteen per cent. There is no revenue or profit performance cap.

For details of 2013 payments see pages 36-37.

For 2014 the annual bonus is based on key performance indicators (KPIs) linked to the Group's strategy, which provides a rounded assessment of the Group's performance.

The two financial metrics will be profit and revenue. Directors will be eligible for an additional over-performance payout if the Group over-achieves on its target bookings. The levels of bonus award will therefore reflect actual performance relative to both annual and longer-term expectations.

Annual bonus performance measures are selected to provide an appropriate balance between incentivising directors to meet profitability and other financial targets for the year and achieve strategic operational objectives. The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the Committee, reflect overall business performance or individual contribution.

For exceptional performance: 150% of salary

For acceptable performance: a range of between 50% and 100% of salary

Long-Term Incentive plan: The current SDL Long Term Share Incentive Plan was approved by shareholders at an Annual General Meeting of the Company in April 2011 ("the 2011 plan"). It reflects current law and market practice and the performance conditions are based on TSR and EPS as in the view of the Committee these remain the key drivers of the business.

The 2011 Plan, which was designed following consultations with the main institutional shareholder committees (and which is the only long term discretionary executive share plan available to the executive directors) complies with the overall dilution limits relating to the number of new shares (including the re-issue of treasury shares) that can be made available to employee share schemes as published by the Association of British Insurers ("ABI").

The Committee, having carefully considered current market practice, restricts individual limits to 150% of basic salary per annum. This is the maximum annual limit and the actual level of awards is considered each year by the Committee before they are made. The vesting of awards is subject to TSR and EPS performance conditions being achieved over a minimum period of three years.

Service contracts and loss of office payment policy: Service contracts normally continue until the director's agreed retirement date or such other date as the parties agree. The service contracts contain provision for early termination. No director has a notice period exceeding 12 months. Service agreements contain no contractual entitlement to receive variable pay; participation in these arrangements is at the Committee's discretion. If the employing company terminates the employment of an executive director without giving the period of notice required under the contract, the executive director would be entitled to claim recompense for up to one year's remuneration subject to consideration of the director's obligation to mitigate the loss. Such recompense is expected to be limited to: base salary due for any unexpired notice period; any amount assessed by the Committee as representing the value of other contractual benefits, and pension, which would have been received during the period. In the event of a change of control of the Company there is no enhancement to these terms.

Any outstanding share-based entitlements granted to an executive director under the Company's share plans will be determined based on the relevant plan rules. The default treatment is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, disability, retirement or other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure) 'good leaver' status can be applied.

An Executive Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct.

Approach to remuneration for new executive director appointments: The remuneration package for an externally recruited new executive director would be set in accordance with the terms and maximum levels of the Company's approved remuneration policy in force at the time of appointment.

In addition, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore shareholders). In considering any such payments the Committee would take account of remuneration relinquished when leaving the former employer and the nature, vesting dates and any performance requirements attached to the relinquished remuneration. Shareholders will be informed of any such payments at the time of appointment.

For an internal appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

For external and internal appointments, the Company may meet certain relocation expenses as appropriate.

Legacy arrangements: For the avoidance of doubt, this Policy report includes authority for the Company to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous Remuneration reports. Details of any payments to former directors will be set out in the implementation section of this report as they arise.

External Non-executive Director positions: Executive directors are permitted to serve as Non-executive Directors of other companies where there is no competition with the Company's business activities and where these duties do not interfere with the individual's ability to perform his duties for the Company. Neither of the Executive Directors currently has such appointments.

If the appointment is not connected to the Company's business, the Executive Director is entitled to retain any fees received.

Claw back/Malus: There are no specific provisions to withhold or recover sums paid under short and long term incentives.

Non-executive directors: The remuneration of the non-executive directors is periodically reviewed by the Chairman following consultation with the Board. Our policy is to pay competitively considering external market research and individual roles and responsibilities. Current non-executive director fees are included in the table on pages 36 and 37.

Non-executive directors do not participate in any incentive or benefit plans. The Company does not provide any pension contributions.

Non-executive directors have letters of appointment setting out their duties and time commitment expected. The letters are available for inspection by shareholders at the Company's registered office upon request.

The appointment of non-executive directors may be terminated without compensation.

Non-executive directors are generally not expected to serve for a period exceeding nine years.

The Chairman meets with each non-executive director to review individual performance.

In line with the UK Corporate Governance Code, all non-executive directors submit themselves for re-election every year at the Annual General Meeting.

Statement of implementation of remuneration policy in the following financial year

The base salary for the Chief Executive is £500,000. The new CFO was appointed in November 2013 on a base salary of £280,000. Pension and benefits are in line with benefits stated in the policy table.

The performance measures for the annual bonus plan are given in the illustration below. Targets are not disclosed because they are considered by the Board to be commercially sensitive.

There was no change in the maximum LTIP opportunity for our CEO and awards of 150% of base salary are expected to be made in 2014. For minimum vesting where the LTIP award will vest at the 25% level the TSR must match that of the FTSE 250 index (excluding investment companies) and EPS must increase by inflation plus 3% per annum during the performance period. For maximum vesting the Company's TSR over the period must, in addition to meeting the EPS condition, outperform the total return by reference to the index by 100%.

Illustration of 2014 remuneration policy

The tables below set out an illustration of the remuneration policy for 2014 in line with the remuneration policy above and include base salary, pension, benefits and LTIPs.

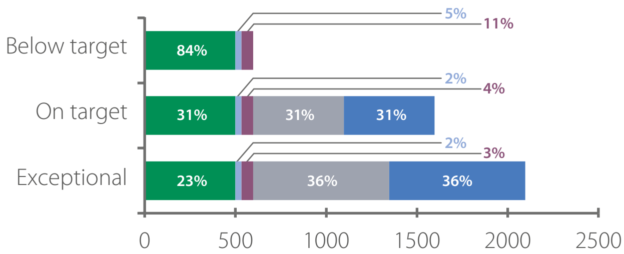
The tables provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component. Benefits are calculated as per the single figure of remuneration.

Three scenarios have been illustrated for each executive director:

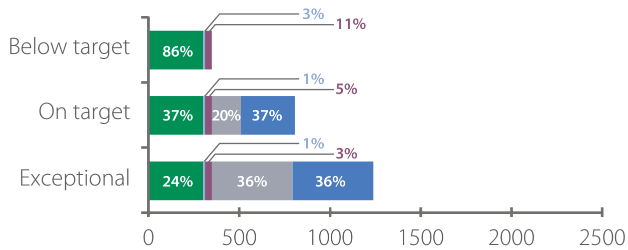
Below target performance:	no bonus payout no vesting of the LTIP award in 2012
Target performance:	between 50% to 100% of salary paid out as annual bonus 100% vesting of LTIPs
Exceptional performance:	150% of salary paid out as annual bonus 100% vesting of LTIPs

The scenarios below do not take into account share price appreciation or dividends. For the purpose of the illustrations, the value of each component has been rounded to the nearest £1,000.

CEO Illustration



CFO Illustration



Salary Benefits Pension Bonus LTIP

Information subject to audit

Remuneration Report 2013

The following table shows the remuneration earned by each director during 2013 versus 2012 and single total figures given.

	Basic salary and fees (£)		Taxable benefits (£)		Pension (£)	
	2013	2012	**2013**	2012	**2013**	2012
David Clayton	**57,500**	45,000	–	–	–	–
Mark Lancaster	**500,000**	316,667	**32,557**	31,610	**64,036**	42,036
Dominic Lavelle	**28,718**	–	**1,231**	–	–	–
Matthew Knight	**169,583**	185,000	**15,603**	12,364	**20,350**	22,200
John Hunter	–	266,731	–	16,396	–	43,777
Chris Batterham	**40,000**	40,000	–	–	–	–
Joe Campbell	**46,130**	44,793	–	–	–	–
Mandy Gradden	**35,000**	32,083	–	–	–	–
John Matthews	**34,500**	11,667	–	–	–	–
Jane Thompson	–	13,125	–	–	–	–
	911,431	955,066	**49,391**	60,370	**84,386**	108,013

CEO remuneration 2009-2013

		Basic salary and fees (£)	Taxable benefits (£)	Pension (£)
2013	Mark Lancaster	500,000	32,557	64,036
2012	Mark Lancaster	*41,667*	*2,634*	*5,336*
	John Hunter	*266,731*	*16,396*	*43,777*
	Total 2012:	**308,398**	**19,030**	**49,113**
2011	John Hunter	291,667	12,364	35,000
2010	Mark Lancaster	300,000	30,798	40,036
2009	Mark Lancaster	300,000	30,068	40,036

Notes to the single figure total remuneration table:

Basic Salary

Salaries in 2012: Mark Lancaster was paid basic salary of £300,000 rising to £500,000 on the assumption of the duties of CEO in December 2012. All other Directors salaries remained unchanged. Salaries in 2013: David Clayton's fee increased to £70,000 on the assumption of the duties of Chairman in July 2013. Dominic Lavelle joined as CFO in November 2013 on a basic salary of £280,000.

The base salaries of executive directors are reviewed annually having regard to personal performance, divisional or Group performance, significant changes in responsibilities and competitive market practice in their area of operation. The principal external comparator groups against which executive directors' reward is currently reviewed include the FTSE 250 and similarly sized UK-headquartered companies. Changes to base salary are generally effective from 1 January.

Benefits

The benefits in 2013 were unchanged from the previous year and included: car allowance, private medical insurance and life assurance.

Pension

The company made contributions in 2012 and 2013 to the personal pensions of the CEO and CFO equivalent to 12.8% and 12% of salary respectively.

Bonus

The annual bonus in 2012 was £112,294 and £30,000 for Mark Lancaster, CEO and Matthew Knight, CFO, respectively. The annual bonus in 2013 was £nil for both the CEO and CFO. For 2013 the Group Bonus plan, and hence the bonus for executive directors, was based on 50% profitability targets and 50% revenue targets with an overall multiplier for bookings growth. The bookings growth in 2013 was insufficient to trigger the bookings multiplier and hence no bonus was paid to the executive directors in 2013. The actual target range for 2012 and 2013 have not been disclosed as this is considered by the Board to be commercially sensitive information.

LTIP Vest

The LTIP awards granted in 2010 failed to vest in 2013. SDL's TSR performance against the Comparator Group placed it 11th out of 23 companies, exceeding the median performance required and satisfying the TSR requirement for vesting of the award. The EPS performance achieved was approximately 5% – around half of the minimum vesting target required. As the EPS performance condition failed, all LTIPs granted in 2010 for release in 2013 lapsed. LTIPs vesting in 2012 are valued using the share price at the time of vest.

The following table sets out the Company's EPS performance for the four measures externally quoted. The results are as follows:

EPS measure	Actual as at 31 Dec 09 (p)	Actual as at 31 Dec 09 (p)	Threshold EPS target (p)	Maximum EPS target (p)	Actual annual compound growth rate	Level of vesting
EPS – basic	23.55	26.12	31.35	46.00	3.51%	0%
EPS – diluted	22.79	25.98	30.33	44.51	4.46%	0%
Adj EPS – basic	29.05	33.95	38.67	56.74	5.33%	0%
Adj EPS – diluted	28.11	33.77	37.41	54.90	6.30%	0%

The table above illustrates that under all of the four measures, the EPS performance condition has not been met and therefore no awards vested in 2013.

	Bonus (£)		Contractual loss of office payment (£)		LTIP vest (£)		**TOTAL (£)**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	–	–	–	–	–	–	**57,500**	45,000
	–	112,294	–	–	–	485,146	**596,593**	987,753
	–	–	–	–	–	–	**29,949**	–
	–	30,000	**113,624**	–	–	–	**319,160**	249,564
	–	–	–	352,266	–	–	–	679,170
	–	–	–	–	–	–	**40,000**	40,000
	–	–	–	–	–	–	**46,130**	44,793
	–	–	–	–	–	–	**35,000**	32,083
	–	–	–	–	–	–	**34,500**	11,667
	–	–	–	–	–	–	–	13,125
	–	142,294	**113,624**	352,266	–	485,146	**1,158,832**	2,103,155

	Bonus (£)	Contractual loss of office payment (£)	LTIP Vest (£)	TOTAL (£)
	–	–	–	**596,593**
	–	–	–	*49,637*
	–	*352,266*	–	*679,170*
	–	**352,266**	–	**728,807**
	242,574	–	618,887	**1,200,492**
	257,727	–	325,090	**953,651**
	217,437	–	379,949	**967,490**

In 2012 SDL achieved a ranking TSR position of 6th out of a comparator group of 20 companies together with an attributable Earnings Per Share (EPS) growth of 19.3%. The Remuneration Committee therefore approved a 71.5% vest of the award. The balance of the award lapsed in line with the scheme rules.

Retention award

As reported in the 2010 Annual Report, the Committee after discussions with institutional shareholders, made an exceptional and one-off conditional award to Mark Lancaster on 17 January 2011 of 141,510 SDL shares, vesting over three years. The final tranche of the award vested in January 2014. The award is now fully vested and yet to be exercised by Mark Lancaster. As there were no performance conditions attached to the award, it was included in the 2011 remuneration for Mark Lancaster and is noted in the 'Directors' shareholdings and share interest' section of this report.

Loss of office payments

No payments have been made that have not already been included in the single figure of remuneration set out earlier in this report.

Remuneration for the previous CFO

Matthew Knight stepped down from the Board as Chief Financial Officer on 25 November 2013 and resigned from the Group as an employee on 28 February. He received a base salary, benefits and pension contributions up to his leave date. All of Matthew's outstanding share awards lapsed on cessation of his employment. A contractual payment of £67,374 was made, along with £46,250 payment in lieu of notice.

Remuneration of Chief Executive Officer and how the Remuneration Policy relates to the wider Company

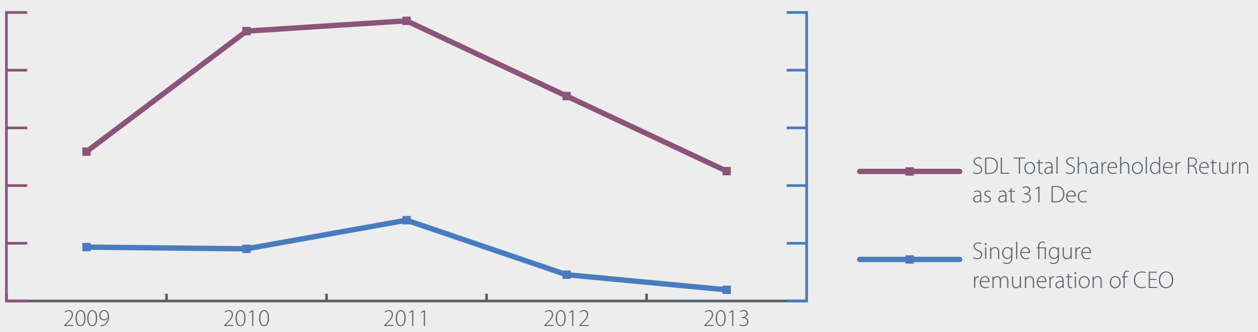
Many aspects of the remuneration policy for Executive Directors are consistent with the reward strategy for all colleagues across the company.

However, below executive level, pay and benefits are lower in aggregate, driven by market comparatives and the nature of the roles.

Core principles and features of broader remuneration practices include:

- Fair and competitive basic pay for all employees, including the Executive Directors with reference to the local market rate supported by relevant benchmarking.
- Attractive short and long-term incentive schemes throughout the organisation aligned to business strategy and performance. The Company is currently reviewing the operation of key performance related pay structures to increase alignment to business goals, improve consistency, transparency and fairness and ensure effective line of sight and cascade.
- A range of benefits depending on employee location including pensions, core benefits, paid annual leave and healthcare insurance.
- Promotion of employment conditions that are commensurate with a good employer and with a high profile brand, including high standards of health and safety and policies on equal opportunity.

Historical executive pay and Company performance



	2009	2010	2011	2012	2013
Single figure remuneration of CEO	£1.0m	£1.0m	£1.2m	£0.7m	£0.6m
SDL Total Shareholder Return as at 31 Dec	179.37	283.84	292.76	227.58	162.53

Directors' shareholdings and share interests

The directors and their interests in the share capital of the Group as at 31 December 2013 according to the register of directors' interests are detailed as follows:

Shareholdings (including connected persons)

	At 1 Jan 2013	Purchased during year	Purchase price (p)	Sold during year	At 31 Dec 2013
David Clayton	–	40,000	264.3p	–	**40,000**
Chris Batterham	86,895	–	–	–	**86,895**
Joe Campbell	–	–	–	–	–
Mandy Gradden	7,500	–	658p	–	**7,500**
Matthew Knight	–	–	–	–	–
Mark Lancaster	686,644	515,350	500,000 @ 300p; 15,350 @ 331p	–	**1,201,994**
Dominic Lavelle	–	–	–	–	–
*John Matthews	20,000	7,000	261.5p	–	**27,000**

*advisor to the Board

LTIPS

	Issue price	At 1 Jan 2013	Awarded during the year	Exercised during the year	Achieved during the year	Expired or lapsed during the year	At 31 Dec 2013
Mark Lancaster	494.3(a)	60,692	–	–	–	60,692	–
Mark Lancaster	670(b)	67,164	–	–	–	–	67,164
Mark Lancaster	748(c)	60,160	–	–	–	–	60,160
Mark Lancaster	420(d)	–	178,571	–	–	–	178,571
Dominic Lavelle	–	–	–	–	–	–	–
Matthew Knight	670(b)	27,612	–	–	–	27,612	–
Matthew Knight	748(c)	24,733	–	–	–	24,733	–
Matthew Knight	420(d)	–	33,036	–	–	33,036	–

(a) awarded 12 April 2010, expire 12 April 2020
(b) awarded 18 May 2011, expire 18 May 2021
(c) awarded 10 April 2012, expire 10 April 2022
(d) awarded 17 April 2013, expire 17 April 2023

In 2013 a total of 1,193,532 LTIP shares were awarded to executive directors and senior management with a performance period of three years from date of grant.

Of this total, Mark Lancaster and Matthew Knight were awarded 178,571 and 33,036 respectively.

All unvested shares held by Matthew Knight (including the 2013 award) lapsed on his resignation from the SDL Group.

Relative importance of spend on pay

	2012	2013	Percentage change
Staff costs (£m)	128.5	145.7	13.4
Dividends (£m)	4.9	–	–
PBTA (£m)	37.0	8.2	-77.8

Average pay per employee in 2013 was £45,500 (2012: £45,900) a reduction of 1%.

Conditional award

	Issue price	At 1 Jan 2013	Awarded during the year	Exercised during the year	Achieved during the year	Expired unachieved during the year	At 31 Dec 2013
Mark Lancaster	636p	141,510	–	–	–	–	141,510

Exceptional and one-off conditional award to Mark Lancaster on 17 January 2011 with one third vesting in 2012, 2013 and 2014. Vested in full as at 17 January 2014.

Options

	Exercise price (p)	At 1 Jan 2013	Awarded during the year	Exercised during the year	Expired unexercised during the year	At 31 Dec 2013
Mark Lancaster	119.33p	200,000	–	–	–	200,000

Options are exercisable between 4 April 2006 and 4 April 2015

Sharesave

All employees in Canada, Netherlands, the UK and the USA including executive directors, are eligible to participate in the Company's UK or International Sharesave Plan

Service Contracts

The policy of the Company is to have service contracts for all the executive directors that continue indefinitely unless determined by notice but to avoid long notice periods or excessive financial termination provisions. The non-executive directors have contracts that run for three-year terms, commencing from the date of appointment, subject to three months notice from either side. There are no special provisions for executive or non-executive directors with regard to compensation in the event of loss of office. No director had a notice period exceeding 12 months.

There have been no further changes to any directors' interests in shares (including options and long term incentive plan shares) since the end of the financial year up to a date that is not more than one month before the date of the notice of the annual general meeting.

The company has granted an indemnity to one or more of its directors and subsidiary company directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' Report

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

The Board are required to present a fair review of the business during the year to 31 December 2013 and of the position of the Group at the end of the financial year along with a description of the principal risks and uncertainties faced.

The purpose of the Strategic Report is to give shareholders the ability to assess how the directors have performed their duties under section 172 of the Companies Act 2006 (to promote the success of the Company). It provides context to the financial statements, an analysis of past performance and an insight into the main objectives, strategies and risks and how these might impact future performance.

The information that fulfils the requirements of the Strategic Report can be found in the following sections of the Annual Report, which are incorporated into the Strategic Report by reference:

- Chairman's Statement
- Chief Executive Officer's Review
- Financial Review
- Risk Management
- People
- Environment
- Governance

Going Concern

In line with UK Corporate Governance Code requirements the Directors have made enquiries concerning the potential of the business to continue as a going concern.

The company has a £30m Revolving Credit Facility with RBS which currently matures in September 2015 and the Company has been in discussions with RBS in order to amend and extend this facility. RBS have issued a credit approved term sheet which extends the facility to June 2017 (if required by the group and subject to the group meeting certain tests in 2014). As with the current facility, the availability of the amended facility is also subject to a number of conditions, such as quarterly covenant tests. The Company expects to finalise agreement with the bank very shortly.

The Directors' enquiries included a review of performance in 2013, 2014 annual plans, a review of working capital including the liquidity position, financial covenant compliance and a review of current cash levels. As a result, they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Given this expectation, they have continued to adopt the going concern basis in preparing the accounts.

Acquisition of Bemoko Consulting Limited

On 8 February 2013, the Group acquired 100% of the share capital of Bemoko Consulting Limited, an unlisted company based in the United Kingdom. The principal activity of Bemoko Consulting Limited is the provision of mobile solutions.

The total cost of the combination comprises £2.2 million of which £1.4 million was funded from the Group's existing cash resources and £0.8 million of contingent consideration will be settled in shares if certain criteria are met. See Note 3 in the financial statements for further details.

Results and Dividends

The results for the year are set out in the Strategic Report on page 4. Dividends paid are set out on page 65.

Share Capital and Control

Pursuant to section 992 of the Companies Act 2006 which implements the EU Takeovers Directive, the Company is required to disclose certain additional information. Such disclosures, to the extent not covered elsewhere in the annual report, include the information set out below.

- The structure of the Company's capital and the rights and obligations attached to those shares are given in note 19 to the accounts.
- There are no restrictions on the transfer of securities of the Company, including limits on holdings and requirements to obtain approval of the company or other holders for a transfer.
- All persons with a significant holding, along with the value of that holding are given in the table below (share price at 17 February 2014; 385 pence).

There is no person holding securities with special control rights.

- All shares issued under employee share schemes have rights which are directly exercisable by the employees.
- There is no restriction on voting rights. The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights.
- There are no agreements between shareholders that may result in restrictions on the transfer of securities or on voting rights.
- Amended Articles, taking account of changes in English company law brought about by the Companies Act 2006, were approved by shareholders at the Annual General meeting on 23 April 2010.
- The powers of the directors are given in the Articles of Association plus those granted by special resolution at the AGM dated 30 April 2013 governing shares issuance.
- There are no significant agreements entered into by the Company that take effect, alter or terminate upon a change of control following a takeover bid and the effect of such agreements.
- The agreements between the company and its directors for compensation for loss of office are given in the Directors Remuneration Report on page 31.

Employment policy

See also 'People' on page 15. Our employment policies are developed to reflect local legal, cultural and employment requirements.

The Group rejects all forms of discrimination and operates an equal opportunities policy. We expressly prohibit discrimination on grounds such as sex, race, religion or belief, age or perceived age, sexual orientation or disability.

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 continues a policy of employee involvement by making information available 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.

Health & Safety

The Chief Financial Officer has ultimate responsibility for Health and Safety. Specific tasks are delegated to local office managers and suitably trained individuals within the organisation.

The Group recognises and accepts its responsibility as an employer to provide safe and healthy working conditions for all its employees. The Company commits to maintaining a safe working office environment complying with relevant local legislation and providing training where appropriate in matters of health and safety.

SDL's policy on Health & Safety includes the following:

- To provide information, training and supervision as is necessary to ensure health and safety at work;
- To provide and maintain safe equipment;
- To comply with statutory requirements for health, safety and welfare in each global office;
- To maintain safe and healthy working conditions; and
- To review and revise this policy as necessary at regular intervals.

Greenhouse gas emissions

All disclosures concerning the Group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 are contained in the Environment section of the Strategic report on page 18.

Contractual Relationships

There are no individual contracts which are considered to be significant or critical to the overall business of the Group.

Creditor Payment Policy and Practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with and that there are no disputes. This policy was applied consistently in 2013 and the ethical treatment of suppliers is of importance to the supply relationships with the extensive list of individual freelance translators that form an integral part of the translation supply chain and on whom SDL relies. Any changes in supplier terms and conditions are through negotiation.

At 31 December 2013, the Company had an average of 29 days purchases outstanding in trade creditors (2012: 32 days).

Political and Charitable Donations

During the year, no political donations were made. Charitable donations amounting to £7,129 were made to external charities and £80,000 was donated to The SDL Foundation.

Auditor

Our auditor, KPMG Audit Plc has instigated an orderly wind down of business. The Board has decided to put KPMG LLP forward to be appointed as auditor and a resolution concerning their appointment will be put to the forthcoming AGM of the company.

Directors' Statement as to Disclosure of Information to Auditor

The directors who were members of the Board at the time of approving the directors' report are listed on pages 22 and 23. Having made enquiries of fellow directors and of the company's auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditor is aware of that information.

Share Capital and Control

	Holding at 17 February 2014	% of issued share capital	Value of Holding (£'000)
Toscafund Asset Management	9,885,923	12.30	£38,061
Artemis Investment Management	7,702,514	9.58	£29,655
Schroder Investment Management	7,669,370	9.54	£29,527
BlackRock	6,487,380	8.07	£24,976
Aberforth Partners	4,177,471	5.20	£16,083
Baillie Gifford	3,732,836	4.64	£14,371
Herald Investment Managers	3,151,269	3.92	£12,132
Legal & General Investment Managers	2,487,562	3.09	£9,577

Special Business at the Annual General Meeting

At the Annual General Meeting, items 1 to 12 inclusive are proposed as ordinary resolutions and items 13 and 14 as special resolutions.. These resolutions together with explanatory notes, as appropriate, are set out in the Notice of Annual General Meeting.

Where Shareholders are in any doubt as to what action to take in this matter they should consult appropriate independent advisors. Where all securities have been sold or transferred by the person receiving this document, it should be passed to the person for whom the sale or transfer was affected for transmission to the purchaser or transferee.

COMPANY NUMBER

The Company number of SDL PLC is 2675207.

By order of the Board

Dominic Lavelle
Director
18 March 2014

Statement of Directors' Responsibilities in Respect of the Group Financial Statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the directors as at the date of this report consider that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Dominic Lavelle

Director

18 March 2014

Independent Auditor's report to the members of SDL plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of SDL plc for the year ended 31 December 2013 set out on pages 48 to 94. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Technology revenue (£115.6m)

Refer to page 28 (Audit Committee Statement), page 57 (accounting policy) and page 60 (financial disclosures).

- The risk – Technology revenue includes licensed software and related services. Technology revenue recognition is considered a significant audit risk as there is often significant judgement required in allocating the consideration receivable to each element of the contract and to the determination of the stage of completion of each element. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period.
- Our response – In this area our audit procedures included, among others, inspecting those contracts contributing the highest levels of license revenue, and critically assessing:
  - the appropriateness of the directors' judgements in determining the fair value of each element of the contract by reference to standalone selling prices, day rates for consultancy and training, support and maintenance rates and renewal rates;
  - the elements of the contract that have been delivered by obtaining proof of delivery for all delivered elements;
  - the significance of undelivered elements, such as professional services outstanding or upgrades or future changes to products, to determine the potential impact on revenue recognition;
  - the appropriateness and consistent application of the Group's accounting policies across each contract tested.

We assessed the recoverability of receivables for any potential impact on revenue recognition at the date of delivery, or date of initial recognition of revenue if later, challenging whether non-payment indicated that either obligations had not been fulfilled or that it was not probable that future economic benefits would flow to the Group. We did this by checking whether cash had been received after the year end in respect of amounts owed to the Group at the year end, or, where amounts remain unpaid, by evaluating the directors' judgements on recoverability, taking into account specific customer circumstances, externally available data on trade credit exposures and our own knowledge of recent bad debt experience in the industry.

We also assessed the adequacy of the Group's disclosure about significant judgements in relation to revenue recognition.

Impairment of goodwill (£209m carrying value and impairment charge of £20.4m)

Refer to page 29 (Audit Committee Statement), page 54 (accounting policy) and page 70 (financial disclosures).

- The risk – The carrying value of goodwill is a significant part of the net assets of the Group and is significant compared to the market capitalisation of the Group. Following the deterioration in the trading performance of the Group during the financial year, particularly the Content and Analytic Technologies cash generating unit, there is an increased risk of impairment. Goodwill is assessed for impairment using a discounted cash flow model to calculate a value in use. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, this is one of the key judgemental areas that our audit concentrates on.
- Our response – In this area our audit procedures included, among others, testing the budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow model. We compared the input assumptions to externally and internally derived data as well as our own assessments in relation to key inputs such as market performance, current business trends and pipeline, projected economic growth, cost inflation and discount rates. In addition, where no impairment was recorded, we performed break-even analysis on the assumptions and considering the likelihood of the assumptions reaching these breakeven points. Our assessment included consideration of the potential risk of management bias and consideration of the historical accuracy of the directors' forecasts.

We also compared the sum of the discounted cash flows to the Group's market capitalisation by challenging whether the Group's assumptions are appropriate in the light of different assumptions used by investors.

We also assessed the adequacy of the Group's disclosures in respect of impairment testing and whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflect the risks inherent in the key assumptions and the requirements of relevant accounting standards.

Recognition of deferred tax assets on tax losses carried forward at 31 December 2013 (£2.0m)

Refer to page 29 (Audit Committee Statement), page 56 (accounting policy) and page 63 (financial disclosures).

- The risk - The recognition of deferred tax assets on losses requires the Group to be sufficiently certain that forecast taxable profits will be generated against which those losses may be recoverable. This is considered to be a significant audit risk as there are significant complexities and judgements required in forecasting future taxable profits in each tax jurisdiction. The judgement is complicated further by detailed local legislation, particularly in the US, where the utilisation of brought forward tax losses in acquired entities may be restricted.

- Our response - In this area our audit procedures included, among others, challenging the Group's forecasts of future taxable profits, checking the consistency of the underlying assumptions used with those used in the cash flow forecasts used for impairment testing (see above) and the Group's assessment of going concern, and our experience of the industry.

We inspected reports prepared for the Group by external experts to support the availability of losses in jurisdictions (most notably the US) where there are potential restrictions. We utilised our own tax specialists to challenge the key judgements made by management around the specific tax legislation in significant locations.

We also assessed the adequacy of the Group's disclosure about significant judgements in relation to recognition of deferred tax.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £750,000. This has been determined with reference to a benchmark of Group loss before taxation which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. Materiality represents 3% of Group loss before taxation and 9% of Group profit before taxation excluding amortisation, restructuring costs and historical litigation costs, as disclosed on the face of the income statement.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £40,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors at the key reporting components in the following countries: Belgium, Germany, Ireland and Holland and by the group audit team in the UK. In addition, specified audit procedures were performed by component auditors in Japan, Korea, Canada and the US. These audit procedures at components and procedures at consolidation level covered 79% of Group revenue; 80% of the total profits and losses before tax that made up Group loss before tax, and more than 85% of total Group assets.

The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £100,000 to £600,000.

Detailed instructions were sent to all auditors in these locations. These instructions covered the significant audit areas that should be covered by the audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. The group audit team visited the United States, and telephone meetings were also held with all component auditors.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Governance section of the Strategic Report within the annual report describing the work of the Group Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required 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 and the part of the Directors' Remuneration report to be audited 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.

Under the Listing Rules we are required to review:

- The directors' statement set out on page 41 in relation to going concern; and
- The part in the Corporate Governance Statement on page 20 relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Paul Gresham (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

18 March 2014

Consolidated Income Statement

for the year ended 31 December 2013

	Notes	2013 £m	2012 £m
Sale of goods		**49.6**	50.8
Rendering of services		**216.5**	218.5
Revenue	4	**266.1**	269.3
Cost of sales		**(120.1)**	(117.7)
Gross profit		**146.0**	151.6
Administrative expenses	5	**(170.0)**	(123.9)
Operating (loss)/profit		**(24.0)**	27.7
Operating profit before tax, amortisation and one-off costs		**8.6**	37.3
Amortisation of intangible assets		**(7.5)**	(8.1)
One-off costs	5	**(25.1)**	(1.5)
Operating (loss)/profit	5	**(24.0)**	27.7
Finance revenue	5	**0.1**	0.1
Finance costs	5	**(0.5)**	(0.4)
(Loss)/profit before tax		**(24.4)**	27.4
Profit before tax, amortisation and one-off costs		**8.2**	37.0
Amortisation of intangible assets		**(7.5)**	(8.1)
One-off costs	5	**(25.1)**	(1.5)
(Loss)/profit before tax	5	**(24.4)**	27.4
Tax expense	6	**(3.5)**	(6.5)
(Loss)/profit for the year attributable to equity holders of the parent		**(27.9)**	20.9
Earnings per ordinary share – basic (pence)	8	**-34.78**	26.12
Earnings per ordinary share – diluted (pence)	8	**-34.78**	25.98

Adjusted earnings per ordinary share (basic and diluted) are shown in note 8.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

	Notes	2013 £m	2012 £m
(Loss)/profit for the period		**(27.9)**	20.9
Currency translation differences on foreign operations		**(0.1)**	(6.6)
Currency translation differences on foreign currency quasi equity loans to foreign subsidiaries		**(0.3)**	(0.3)
Income tax (charge) / benefit on currency translation differences on foreign currency quasi equity loans to foreign subsidiaries	6	**(0.1)**	0.1
Other comprehensive income		**(0.5)**	(6.8)
Total comprehensive income		**(28.4)**	14.1

All the total comprehensive income is attributable to equity holders of the parent Company. A currency translation difference on a foreign operation may be reclassified to the Income Statement upon disposal of that operation. There are no other items included in Other Comprehensive Income that may be reclassified to the Income Statement in the future.

Consolidated Statement of Financial Position

at 31 December 2013

	Notes	2013 £m	2012 £m
Assets			
Non current assets			
Property, plant and equipment	9	**9.6**	8.8
Intangible assets	10	**209.0**	234.5
Deferred tax asset	6	**3.7**	4.4
Rent deposits		**1.6**	1.6
		223.9	249.3
Current assets			
Trade and other receivables	13	**70.9**	66.0
Cash and cash equivalents	14	**18.2**	28.5
		89.1	94.5
Total assets		**313.0**	343.8
Current liabilities			
Trade and other payables	15	**(79.9)**	(72.7)
Loans and overdraft	17	**(20.0)**	(22.2)
Current tax liabilities		**(4.8)**	(8.3)
Provisions	18	**(2.3)**	(1.6)
		(107.0)	(104.8)
Non current liabilities			
Other payables	16	**(2.6)**	(2.1)
Deferred tax liability	6	**(6.0)**	(8.3)
Provisions	18	**(0.9)**	(0.8)
		(9.5)	(11.2)
Total liabilities		**(116.5)**	(116.0)
Net assets		**196.5**	227.8
Equity			
Share capital	19	**0.8**	0.8
Share premium account		**97.4**	96.8
Retained earnings		**83.5**	114.9
Foreign exchange differences		**14.8**	15.3
Total equity		**196.5**	227.8

Approved by the Board of directors on 18 March 2014

M Lancaster
Director

D Lavelle
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

	Share Capital £m	Share Premium Account £m	Retained Earnings £m	Foreign Exchange Differences £m	Total £m
At 1 January 2012	**0.8**	**95.9**	**99.0**	**22.1**	**217.8**
Profit for the period	–	–	20.9	–	20.9
Other comprehensive income	–	–	–	(6.8)	(6.8)
Total comprehensive income	–	–	20.9	(6.8)	14.1
Deferred income taxation on share based payments (Note 6)	–	–	0.2	–	0.2
Tax credit for share options (Note 6)	–	–	0.5	–	0.5
Arising on share issues	–	0.9	–	–	0.9
Dividend paid	–	–	(4.6)	–	(4.6)
Share based payments (Note 20)	–	–	(1.1)	–	(1.1)
At 31 December 2012	**0.8**	**96.8**	**114.9**	**15.3**	**227.8**

	Share Capital £m	Share Premium Account £m	Retained Earnings £m	Foreign Exchange Differences £m	Total £m
At 1 January 2013	**0.8**	**96.8**	**114.9**	**15.3**	**227.8**
Loss for the period	–	–	**(27.9)**	–	**(27.9)**
Other comprehensive income	–	–	–	**(0.5)**	**(0.5)**
Total comprehensive income	–	–	**(27.9)**	**(0.5)**	**(28.4)**
Deferred income taxation on share based payments (Note 6)	–	–	**0.2**	–	**0.2**
Arising on share issues	–	**0.6**	–	–	**0.6**
Dividend paid	–	–	**(4.9)**	–	**(4.9)**
Share based payments (Note 20)	–	–	**1.2**	–	**1.2**
At 31 December 2013	**0.8**	**97.4**	**83.5**	**14.8**	**196.5**

The amounts above are attributable to equity holders of the parent company.

Consolidated Statement of Cash Flows

at 31 December 2013

	Notes	2013 £m	2012 £m
(Loss)/profit before tax		**(24.4)**	27.4
Depreciation of property, plant and equipment	9	**5.1**	4.1
Amortisation of intangible assets	10	**7.5**	8.1
Impairment losses on intangible assets (goodwill)	10	**20.4**	–
Finance revenue		**(0.1)**	(0.1)
Finance costs		**0.5**	0.4
Share based payments		**1.2**	(1.1)
Gain on disposal of investment		–	(0.7)
Increase in trade and other receivables		**(2.4)**	(3.1)
Increase/(decrease) in trade and other payables		**8.1**	(5.0)
Exchange differences		**0.2**	(1.7)
Cash generated from operations before one-off alterian related outflows		**16.1**	28.3
Alterian acquisition related cash outflows		**(0.3)**	(2.5)
Cash generated from operations		**15.8**	**25.8**
Income tax paid		**(10.3)**	(8.3)
Net cash flows from operating activities		**5.5**	17.5
Cash flows from investing activities			
Payments to acquire property, plant & equipment		**(6.1)**	(5.4)
Receipts from sale of property, plant & equipment		**0.1**	–
Payments to acquire subsidiaries		**(1.4)**	**(69.7)**
Net cash acquired with subsidiaries		**0.2**	0.6
Receipts from sale of investment		–	0.7
Interest received		**0.1**	0.2
Net cash flows from investing activities		**(7.1)**	(73.6)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**0.2**	0.4
Proceeds from borrowings		**20.0**	22.2
Repayment of borrowings		**(22.2)**	(1.9)
Dividends paid		**(4.9)**	(4.6)
Repayment of capital leases		**(0.4)**	(0.8)
Interest paid		**(0.5)**	(0.4)
Net cash flows from financing activities		**(7.8)**	14.9
Decrease in cash and cash equivalents		**(9.4)**	(41.2)
Movement in cash and cash equivalents			
Cash and cash equivalents at the start of year		**28.5**	70.4
Decrease in cash and cash equivalents	21	**(9.4)**	(41.2)
Effect of exchange rates on cash and cash equivalents	21	**(0.9)**	(0.7)
Net cash and cash equivalents at end of year	21	**18.2**	28.5

Notes to the Accounts

for the year ended 31 December 2013

1 Corporate information

The consolidated financial statements of SDL plc (the 'Group') for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 17 March 2014. SDL plc is a public limited company incorporated and domiciled in England whose shares are publicly traded on the London Stock Exchange. The consolidated financial statements of SDL plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (as adopted by the European Union).

The principal activities of the Group are described in Note 4.

2 Accounting policies

Basis of accounting

The consolidated financial statements of SDL plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as relevant to the financial statements of SDL plc. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP and these are presented on pages 81 to 92. The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in UK sterling and all values are rounded to the nearest hundred thousand except where otherwise indicated.

Going Concern

In line with UK Corporate Governance Code requirements the Directors have made enquiries concerning the potential of the business to continue as a going concern.

The Company has a £30m RCF facility with RBS which currently matures in September 2015 and the Company has been in discussions with RBS in order to amend and extend this facility. RBS have issued a credit approved term sheet which extends the facility to June 2017 (if required by the Group and subject to the Group meeting certain tests in 2014). As with the current facility, the availability of the amended facility is also subject to number of conditions, such as quarterly covenant tests. The Company expects to finalise agreement with the bank very shortly.

The Directors' enquiries included a review of performance in 2013, 2014 annual plans, a review of working capital including the liquidity position, financial covenant compliance and a review of current cash levels. As a result, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Given this expectation they have continued to adopt the going concern basis in preparing the accounts.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year. During the year, the Group has adopted the following new and revised standards:

IFRS 13 Fair Value Measurement

IAS 19 (revised) Employee Benefits

The adoption of these standards has had no impact on the Group's results and balance sheets in the current or prior years.

Basis of preparation of consolidated financial statements

The consolidated financial statements include the results of the Company and all its subsidiaries for the full year or from the date of acquisition if later. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Business combinations

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of 1 January 2004. As a result, goodwill recognised as an asset at 31 December 2003 is recorded at its carrying amount under UK GAAP and is not amortised. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Transaction costs are expensed as incurred. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. If the business combination allows for a provision of contingent consideration, this will be provided in the accounts at the fair value. If the business combination allows for deferred compensation this will be recognised in the income statement over the service period.

Intangible assets: Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash generating units expected to benefit from the combination's synergies. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets. This is usually at business segment level or statutory company level as the case may be. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Goodwill arising on acquisitions pre 1 January 2004 was capitalised and amortised over its useful economic life, which was presumed to be 8 years. Any goodwill remaining on the balance sheet at 1 January 2004 is not amortised after 1 January 2004, but is also subject to annual impairment reviews.

Intangible assets: Other

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are held at cost less accumulated amortisation. Intangible assets are amortised on a straight-line basis over their useful economic lives, which are reassessed annually together with any assessment of residual value. The useful lives of these intangible assets are assessed over the expected period that benefits accrue to the Group. Amortisation is charged as a separate line item on the income statement.

Customer relationship intangible assets are amortised on a straight-line basis over their estimated useful life of between 5 and 7 years. Other intangible assets are amortised on a straight-line basis over their estimated useful life of between 5 and 10 years.

Intangible assets: Impairment of assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, where value in use is calculated as the present value of the future cash flows expected to be derived from the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment in value. Historical cost includes the expenditure that is directly attributable to the acquisition of the assets. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Depreciation is provided to write off the cost less the estimated residual value based on prices at the balance sheet date of property, plant and equipment over their estimated useful economic lives as follows:

Leasehold improvements – The lower of ten years or the lease term straight line

Computer equipment – 4-5 years straight line

Fixtures & fittings – 20% reducing balance

Motor vehicles – 20% reducing balance

Useful economic lives and residual values are assessed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognising the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

- Rendering of services

  Revenue on service contracts is recognised only when their outcomes can be foreseen with reasonable certainty and is based on the percentage stage of completion of the contracts, calculated on the basis of costs incurred. Accrued and deferred revenue arising on long-term contracts is included in trade receivables as accrued income and in trade and other payables as deferred income as appropriate.

  Support and maintenance contracts are invoiced in advance and normally run for periods of 12 months with automatic renewal on the anniversary date. Revenue in respect of support and maintenance contracts is recognised evenly over the 12 months commencing from the date of the contract period.

  Managed services (hosting) fees are recognised over the term of the hosting contract on a straight-line basis.

  Professional services and consulting revenue, which is provided on a 'time and expense' basis, is recognised as the service is performed.

  For multiple element arrangements revenue is allocated to each element on fair value regardless of any separate prices stated within the contract. The portion of the revenue allocated to an element is recognised when the revenue recognition criteria for that element have been met.

- Sale of goods

  Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods.

  Revenue on software licenses and upgrades is recognised on despatch, when there are no significant vendor obligations remaining and the collection of the resulting receivable is considered probable. In circumstances where a considerable future vendor obligation exists as part of a software licence and related services contract, revenue is recognised over the period that the obligation exists per the contract.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement with the exception of differences on foreign currency borrowing that provide a hedge against a net investment in a foreign entity. These are taken directly to the Statement of Comprehensive Income until the date of disposal of the net investment, at which time they are recognised in the consolidated income statement. The assets and liabilities of overseas subsidiaries and branches are translated at the closing exchange rate. Income statements of such undertakings are translated at the average rate of exchange during the year. Gains and losses arising on these translations are recognised in Other Comprehensive Income. As permitted by IFRS 1, SDL has elected to deem the cumulative amount of exchange differences arising on translation of the net investments in subsidiaries at 1 January 2004 to be nil.

Intra-company loans for which settlement is neither planned nor likely to occur in the foreseeable future are defined as quasi-equity loans and the currency translation differences on retranslation at the balance sheet date are recognised in the Statement of Comprehensive Income.

Hedge accounting

The Group uses derivative financial instruments such as foreign currency and interest rate contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate contracts is determined by reference to market values for similar instruments. Where derivatives do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the profit or loss account for the period.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, unless they relate to capitalised research and development.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly within the Income Statement.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Incentives received from landlord

In accordance with SIC 15, the aggregate benefit of incentives is recognised as a credit to the income statement. The benefits of the incentives are allocated over the life of the lease on a straight-line basis.

Pension cost

The company contributes to a group personal pension scheme for qualifying employees whereby it makes defined contributions to independently administered personal pension schemes. The company does not control any of the assets or have any ongoing liabilities with regard to the performance of and payments from these individual personal schemes. SDL Global Solutions (Ireland) Limited operates a separate defined contribution scheme whose assets are held separately from the company. The pension cost charge for both schemes represents contributions payable during the period.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, available for sale financial assets, loans and receivables or held-to-maturity investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'Financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale. Available-for-sale assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in other comprehensive income. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Available-for-sale financial assets comprise equity securities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held to maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as exchange or modification, it is treated as a derecognition of the original liability and the recognition of the new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the profit or loss.

Taxation

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed, based on tax rates that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

In the United Kingdom, the Group is entitled to a tax deduction for amounts treated as remuneration on exercise of certain employee share options. As explained under 'Share based payments' below, a remuneration expense is recorded in the consolidated income statement over the period from the grant date to the vesting date of the relevant options. As there is a temporary difference between the accounting and tax bases, a deferred tax asset may be recorded. The deferred tax asset arising on share option awards is calculated as the estimated amount of tax deduction to be obtained in the future (based on the Group's share price at the balance sheet date) pro-rated to the extent that the services of the employee have been rendered over the vesting period. If this amount exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity, against retained earnings. Similarly, current tax relief in excess of the cumulative amount of the remuneration expense at the statutory rate is also recorded in retained earnings.

When deferred tax assets are recognised post acquisition, goodwill is adjusted accordingly.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- trade receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Share based payments

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('Equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). The volatility in the models is calculated by reference to historical share price.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, ending on the date on which the relevant employees become entitled to the award ('vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest. The expense is recognised in the income statement over the vesting period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised over the remainder of the vesting period for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested at 1 January 2005.

National Insurance on Share Option Grants: The anticipated National Insurance charge on gains made by employees over the period from date of grant of the option to the end of the performance period has been provided for.

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured and technical feasibility and commercial viability can be demonstrated. Where these criteria are not met the expenditure is expensed to the income statement. Following the initial recognition of the development expenditure the cost model is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Development costs that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

New standards and interpretations not applied

IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IASs / IFRSs)	Effective date*
IFRS 10 Consolidated Financial Statements	1 January 2014
IFRS 11 Joint Arrangements	1 January 2014
IFRS 12 Disclosure of Interest in Other Entities	1 January 2014
IAS 27 (revised) Consolidated and Separate Financial Statements	1 January 2014
IAS 28 (revised) Investments in Associates	1 January 2014

*Effective date refers to accounting periods commencing on or after the dates above.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Significant critical accounting judgements, estimates and assumptions

Judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Revenue - technology revenue

Management reviews the terms of all license contracts to ensure that the appropriate fair values are determined that consideration receivable is allocated appropriately to each element of the contract, and that there are no future vendor obligations that would affect the license revenue recognised.

Research and development costs

Management continually review research and development expenditure to assess whether any costs meet the criteria for capitalisation. There have been no costs capitalised in 2013 (2012: £nil) with the primary criteria for non capitalisation being technical and commercial feasibility achieved late in the development cycle for new product releases.

Estimates and assumptions

The key assumptions and estimates concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash generating unit to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash generating units, management's estimates of discount rates, long-term operating margins and long-term growth rates (note 12). If the results of the cash generating unit in a future period are materially adverse to the estimates used for the impairment testing an impairment charge may be triggered.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group had recognised tax losses carried forward of £2.0 million (2012: £3.2 million).

The Group has unrecognised tax losses carried forward amounting to £2.7 million (2012: £2.4 million). These losses relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiaries have no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

Revenue - rendering of services

Management makes estimates of the total costs that will be incurred by SDL on a contract by contract basis. Management reviews the estimate of total costs on each contract on an ongoing basis to ensure that the revenue recognised accurately reflects the proportion of the work done at the balance sheet date.

Share based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 20.

Further details on taxes are disclosed in Note 6.

3 Business combinations

Acquisition of Bemoko Consulting Limited

On 8 February 2013, the Group acquired 100% of the share capital of Bemoko Consulting Limited, an unlisted company based in the United Kingdom. The principal activity of Bemoko Consulting Limited is the provision of mobile solutions.

The total cost of the combination comprises £2.2 million of which £1.4 million was funded from the Group's existing cash resources and £0.8 million of contingent consideration will be settled in shares. The values of the identifiable assets and liabilities of Bemoko Consulting Limited as at the date of acquisition were:

	Book value £m	Fair value to Group £m
Intangible assets	–	0.8
Trade receivables	0.1	0.1
Cash and cash equivalents	0.2	0.2
Deferred tax liabilities	–	(0.2)
Net assets	0.3	0.9
Goodwill arising on acquisition		1.3
		2.2
Discharged by:		£m
Cash paid to shareholders		1.4
Fair value of contingent consideration		0.8
Total consideration		2.2
Cash outflow on the acquisition:		
Net cash and cash equivalents acquired with the subsidiary		0.2
Total cash paid		(1.4)
Net cash outflow		(1.2)

The maximum contingent consideration is £0.8 million. The fair value was calculated at £0.8 million and under IFRS 3 (revised) any re-measurement will be recognised in the income statement.

From the date of acquisition, Bemoko Consulting Limited has contributed £0.4 million of revenue and a loss of £0.2 million to the net loss after tax of the Group. If the combination had taken place at the beginning of the year, the loss for the Group would have been £27.9 million and revenue from continuing operations would have been £266.1 million. Included in the £1.3 million of goodwill recognised above are certain intangible assets that cannot be individually separated from the acquired business due to their nature. These items include the assembled workforce.

Acquisition of Alterian plc in 2012

On 27 January 2012 the Group acquired 100% of the share capital of Alterian plc, a listed company based in the United Kingdom. The principal activity of the Alterian plc group is the provision of marketing analytics, social media monitoring, campaign management and content management.

The total cost of the combination comprised £73.1 million. £20 million of the cost of the acquisition was funded by draw down of the Group loan facility and the remainder was funded from the Group's existing cash resources.

The fair value of the identifiable assets and liabilities of the Alterian plc group as at the date of acquisition were:

	Book value £m	Fair value to Group £m
Intangible assets	27.0	19.7
Property, plant and equipment	1.7	1.6
Trade receivables	9.2	9.7
Other receivables	1.2	1.0
Cash and cash equivalents	0.6	0.6
Deferred tax asset	1.2	1.2
Trade payables	(3.0)	(3.0)
Overdraft	(1.9)	(1.9)
Other payables	(23.9)	(23.6)
Deferred tax liabilities	(1.2)	(4.5)
Net assets	10.9	0.8
Goodwill arising on acquisition		72.3
		73.1
Discharged by:		**£m**
Cash paid to shareholders		73.1
Exercise proceeds from employee share options		(3.4)
Total cash payable		**69.7**
Cash outflow on the acquisition:		
Net cash and cash equivalents acquired with the subsidiary		0.6
Total cash paid		(73.1)
Net cash outflow		**(72.5)**

Alterian related acquisition costs included in administration expenses in the income statement amounted to £0.7 million in 2012.

From the date of acquisition Alterian plc group contributed £28.4 million of revenue and a profit of £2.3 million to the net profit after tax of the Group for the year ended 31 December 2012. If the combination had taken place at the beginning of 2012, the profit for the Group in 2012 would have been £21.8 million and revenue from continuing operations would have been £271.7 million. Included in the £72.3 million of goodwill recognised above are certain intangible assets that cannot be individually separated from the acquiree due to their nature. These items include assembled workforce and buyer specific synergies.

4 Segment information

The Group operates in the Customer Experience Management industry. For management purposes, the Group is organised into business units based on their products and services and, following a reorganisation in the year, has three reportable operating segments as follows:

- The Language Services (formerly referred to as Global Solutions) segment is the provision of a translation service for customer's multilingual content in multiple languages.
- The Content and Analytic Technologies segment (formerly the Content Management Technologies and Campaign Management, Analytic and Social Intelligence segments) is the sale of content management, campaign management, social media monitoring and marketing analytic technologies together with associated consultancy and services.
- The Language Technologies segment is the sale of enterprise, desktop and statistical machine translation technologies together with associated consultancy and other services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment prior to charges for tax and amortisation.

In accordance with IFRS8, the operating segments for the comparative period have been restated to the operating segments that exist in 2013.

Year ended 31 December 2013	External Revenue £m	Total Revenue £m	Depreciation £m	Segment profit before taxation and amortisation £m
Language Services	150.5	150.5	1.7	17.6
Content and Analytic Technologies	79.4	79.4	1.4	(5.5)
Language Technologies	36.2	36.2	2.0	(3.9)
Total Technologies	115.6	115.6	3.4	(9.4)
Historic litigation costs	–	–	–	(1.4)
Restructuring costs	–	–	–	(3.3)
Impairment charge (Note 5)				(20.4)
Acquisition related costs				–
Total	266.1	266.1	5.1	(16.9)
Amortisation	–	–	–	(7.5)
Loss before taxation	–	–	–	(24.4)

Year ended 31 December 2012 – restated	External Revenue £m	Total Revenue £m	Depreciation £m	Segment profit before taxation and amortisation £m
Language Services	151.1	151.1	1.1	23.2
Content and Analytic Technologies	79.1	79.1	1.4	10.5
Language Technologies	39.1	39.1	1.5	4.0
Total Technologies	118.2	118.2	2.9	14.5
Historic litigation costs	–	–	–	(1.5)
Acquisition related costs	–	–	–	(0.7)
Total	269.3	269.3	4.0	35.5
Amortisation				(8.1)
Profit before taxation				27.4

Segment assets	**2013 £m**	2012 £m
Language Services	**58.9**	55.7
Content and Analytic Technologies	**141.6**	170.8
Language Technologies	**87.1**	83.2
Adjustments and eliminations	**(1)25.4**	(2)34.1
Total	**313.0**	343.8

(1) Segment assets do not include cash (£18.2m), Corporation Tax (£3.5m) and Deferred Tax (£3.7m).
(2) Segment assets do not include cash (£28.5m), Corporation Tax (£1.2m) and Deferred Tax (£4.4m

Geographical analysis of external revenues by country of domicile is as follows:

	2013 £m	2012 £m
UK	**63.9**	66.7
USA	**77.2**	82.5
Republic of Ireland	**24.7**	24.2
Netherlands	**21.0**	17.9
Belgium	**16.1**	15.2
Germany	**15.4**	15.3
Canada	**11.8**	11.2
Rest of World	**36.0**	36.3
	266.1	269.3

A Geographical analysis of external revenues by destination is provided in the Strategic Review on page 8.

Geographical analysis of non-current assets excluding deferred tax is as follows:

	2013 £m	2012 £m
UK	**173.8**	199.2
USA	**40.9**	40.4
Rest of World	**5.5**	5.3
	220.2	244.9

Goodwill and intangibles recognised on consolidation are included in the country which initially acquired the business giving rise to the recognition of goodwill and intangibles.

5 Other revenue and expenses

Group operating profit is stated after charging/(crediting):	2013 £m	2012 £m
Included in administrative expenses:		
Research and development expenditure	**24.8**	22.9
Bad debt charge	**0.8**	0.6
Depreciation of property, plant and equipment – owned assets	**4.9**	2.9
Depreciation of property, plant and equipment – leased assets	**0.2**	1.1
Amortisation of intangible assets	**7.5**	8.1
Operating lease rentals for plant and machinery	**0.6**	0.6
Operating lease rentals for land and buildings	**6.9**	6.6
Net foreign exchange gains	**–**	(1.0)
Share based payment charge/ (credit)	**1.2**	(1.1)

The net foreign exchange gains above arose due to movements in foreign currencies between the time of the original transaction and the realisation of the cash collection or spend, and the retranslation of US Dollar and Euro denominated intra-group loans.

Auditor's remuneration	2013 £m	2012 £m
Audit of the Group financial statements	**0.3**	0.3
Other fees to auditors:		
Local statutory audits for subsidiaries	0.1	0.1
Taxation compliance services	0.1	0.1
Other services	0.1	0.1

Staff costs	2013 £m	2012 £m
Wages and salaries	**124.6**	112.5
Social security costs	**15.5**	13.6
Pension costs (included in administrative expenses)	**4.4**	3.5
Expense/ (income) of share based payments	**1.2**	(1.1)
	145.7	128.5

The Company operates a personal pension scheme for qualifying employees. Other companies acquired have similar schemes for their qualifying members, although SDL Global Solutions (Ireland) Limited operates a defined contribution scheme with contributions made by the Company placed in a separately administered pension fund. The pension cost charge for the year represents contributions payable by the group to these schemes and amounted to £4.4 million (2012: £3.5 million).

The average number of employees during the year, including executive directors, was made up as follows:

	2013 Number	2012 Number
Administration and sales	**1,214**	1,022
Production	**1,963**	1,728
	3,177	2,750

Finance costs	2013 £m	2012 £m
Bank loans	**0.3**	0.3
Other interest paid	**0.2**	0.1
	0.5	0.4

Finance revenue	2013 £m	2012 £m
Bank interest receivable	**0.1**	0.1

One-off costs	2013 £m	2012 £m
Historic litigation costs	**1.4**	1.5
Onerous lease	**0.4**	–
Redundancy costs	**2.5**	–
Impairment charge	**20.4**	–
Other	**0.4**	–
	25.1	1.5

One-off costs relate to costs associated with the ongoing historic litigation claim against the Group, the costs associated with the re-organisation of the Group in late 2013 and a goodwill impairment write down relating to the Group's Content and Analytic Technologies CGU (see Note 12).

These have been separately disclosed in the income statement to provide a better guide to underlying business performance.

6 Income tax

(a) Income tax on profit:

Consolidated income statement	2013 £m	2012 £m
Current taxation		
UK Income tax charge		
Current tax on income for the period	**0.7**	1.3
Adjustments in respect of prior periods	**0.2**	(0.5)
	0.9	0.8
Foreign tax		
Current tax on income for the period	**4.1**	6.3
Adjustments in respect of prior periods	**0.3**	0.1
	4.4	6.4
Total current taxation	**5.3**	7.2
Deferred income taxation		
Origination and reversal of temporary differences	**(1.8)**	(0.7)
Total deferred income tax	**(1.8)**	(0.7)
Tax expense (see (b) below)	**3.5**	6.5

Consolidated statement of other comprehensive income	2013 £m	2012 £m
Current taxation		
UK Income tax credit		
Income tax charge/(benefit) on currency translation differences on foreign currency equity loans to foreign subsidiaries	**0.1**	(0.1)
Total current taxation	**0.1**	(0.1)

A tax credit in respect of share based compensation for current taxation of nil (2012: £0.5 million) has been recognised in the statement of changes in equity in the year.

A tax credit in respect of share based compensation for deferred taxation of £0.2 million (2012: £0.2 million) has been recognised in the statement of changes in equity in the year.

(b) Factors affecting tax charge:

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of income tax in the UK of 23.25% (2012: 24.5%). The differences are reconciled below:

	2013 £m	2012 £m
(Loss) / profit on ordinary activities before tax	**(24.4)**	27.4
(Loss) / profit on ordinary activities at standard rate of tax in the UK 23.25% (2012: 24.5%)	**(5.7)**	6.7
Expenses not deductible for tax purposes	**0.9**	0.2
Impairment of goodwill	**4.7**	–
Non taxable income	**–**	(0.3)
Adjustments in respect of previous years	**0.5**	(0.4)
Capital allowances for the period in excess of depreciation	**(0.5)**	(0.7)
Utilisation of tax losses brought forward previously not recognised	**(1.0)**	(0.9)
Current tax losses not available for offset	**5.2**	1.3
Effect of overseas tax rates	**0.2**	–
Other	**(0.8)**	0.6
Tax expense (see (a) above)	**3.5**	6.5

(c) Factors that may affect future tax charges:

The Group may claim a Schedule 23 tax credit in respect of certain share based compensation benefits. Due to the requirements of IAS 12, in conjunction with IFRS 2, the amount of benefit that can be recognised in the income statement has been restricted in the current year and may also be restricted in future periods. Any surplus tax credit will be recorded in equity.

There are temporary differences which arise in relation to unremitted earnings of overseas subsidiaries. Since the Group is able to control dividend distributions from these companies it is unlikely that further UK tax on repatriation of these earnings will be payable in the foreseeable future. Consequently no deferred tax liability has been provided.

(d) Deferred income tax:

The amounts recognised and unrecognised for deferred income tax are set out below:

	Recognised 2013 £m	**Unrecognised 2013 £m**	Recognised 2012 £m	Unrecognised 2012 £m
Depreciation in advance of capital allowances	**0.9**	–	0.3	–
Other short-term temporary differences	**(5.2)**	–	(7.5)	–
Tax losses	**2.0**	**2.7**	3.2	2.4
Net deferred income tax (liability) / asset	**(2.3)**	**2.7**	(4.0)	2.4

The Group has unrecognised tax losses in net terms of £2.7 million (2012: £2.4 million) that may be available for use by offset against future taxable profits in the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the Group cannot foresee profitability in the companies where the losses arose with sufficient certainty. The Group has other tax losses amounting to £37.6 million (2012: £36.9 million).

Included within other short term temporary differences are deferred tax assets in respect of potential Schedule 23 tax benefits of £0.4 million (2012: £0.7 million) and a deferred tax liability in respect of the amortisation of certain intangible assets acquired of £5.6 million (2012: £8.0 million).

The Group has recognised deferred tax assets on losses of £2.0 million which is based on forecast future taxable profits in certain tax jurisdictions.

(e) Reconciliation of movement on deferred tax liability:

	2013 £m	2012 £m
At 1 January	**8.3**	6.8
Retranslation of opening balances	**0.1**	(0.1)
Deferred tax liability arising on intangible assets acquired	**0.2**	4.5
Reversal of temporary differences arising on the amortisation of intangibles	**(1.7)**	(1.9)
Other temporary differences arising in the period	**–**	(0.2)
Change in rate from 23% to 20%	**(0.9)**	(0.8)
Deferred tax liability at 31 December	**6.0**	8.3

(f) Reconciliation of movement on deferred tax asset:

	2013 £m	2012 £m
At 1 January	**4.4**	5.0
Retranslation of opening balances	**(0.1)**	(0.1)
Deferred tax asset on acquisition	–	1.2
Temporary differences arising in the period	**(0.7)**	(0.5)
Deferred income tax asset arising on share based payments recorded in statement of changes in equity	**0.2**	0.2
Other temporary differences arising in the period	**(0.1)**	(1.4)
Change in rate from 23% to 20%	**–**	–
Deferred tax asset at 31 December	**3.7**	4.4

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset of £3.7 million and liability of £6.0 million at 31 December 2013 have been calculated based on the rate of 20% substantively enacted at the balance sheet date.

7 Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2012 of 6.1 pence per share (2012: Year ended 31 December 2011: 5.8 pence per share)	**4.9**	4.6

8 Earnings per share

The calculation of basic earnings per ordinary share is based on a loss after tax of £27.9 million (2012: profit of £20.9 million) and 80,283,053 (2012: 79,851,785) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The diluted earnings per ordinary share is calculated by including in the weighted average number of shares the dilutive effect of potential ordinary shares related to committed share options as described in note 20. For 2013 the diluted ordinary shares were based on 81,222,432 ordinary shares that included 939,379 potential ordinary shares.

The following reflects the income and share data used in the calculation of adjusted earnings per share computations before one-off costs:

	2013 £m	2012 £m
(Loss)/ profit for the year	**(27.9)**	20.9
One-off costs	**25.1**	1.5
Amortisation of intangible fixed assets	**7.5**	8.1
Less: tax benefit associated with the amortisation of intangible fixed assets and one-off costs	**(2.6)**	(2.2)
Adjusted profit for the year	**2.1**	28.3

Adjusted earnings per share is shown as the Directors believe that earnings before amortisation and one-off costs is reflective of the underlying performance of the business.

	2013 No.	2012 No.
Weighted average number of ordinary shares for basic earnings per share	**80,283,053**	79,851,785
Effect of dilution resulting from share options	**939,379**	424,086
Weighted average number of ordinary shares adjusted for the effect of dilution	**81,222,432**	80,275,871

	2013	2012
Adjusted earnings per ordinary share – basic (pence)	**2.57**	35.41
Adjusted earnings per ordinary share – diluted (pence)	**2.54**	35.22

There have been no material transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the financial statements.

9 Property, plant and equipment

	Leasehold Improvements £m	Computer Equipment £m	Fixtures & Fittings £m	Motor Vehicles £m	Total £m
Cost:					
At 1 January 2012	1.6	12.1	2.9	0.1	16.7
Additions	0.3	4.5	0.3	–	5.1
Acquisition of subsidiaries	–	1.4	0.2	–	1.6
Currency adjustment	(0.1)	(0.6)	(0.1)	–	(0.8)
At 1 January 2013	1.8	17.4	3.3	0.1	22.6
Additions	0.2	5.4	0.3	–	5.9
Disposals	–	(0.2)	–	–	(0.2)
Currency adjustment	(0.1)	(0.3)	–	–	(0.4)
At 31 December 2013	**1.9**	**22.3**	**3.6**	**0.1**	**27.9**
Accumulated depreciation:					
At 1 January 2012	(1.0)	(7.1)	(2.0)	(0.1)	(10.2)
Provided during the year	(0.1)	(3.4)	(0.5)	–	(4.0)
Disposals	–	–	–	–	–
Currency adjustment	–	0.3	0.1	–	0.4
At 1 January 2013	(1.1)	(10.2)	(2.4)	(0.1)	(13.8)
Provided during the year	(0.2)	(4.6)	(0.3)	-	(5.1)
Disposals	-	0.1	-	-	0.1
Currency adjustment	0.1	0.4	-	-	0.5
At 31 December 2013	**(1.2)**	**(14.3)**	**(2.7)**	**(0.1)**	**(18.3)**
Net book value					
At 31 December 2013	**0.7**	**8.0**	**0.9**	**–**	**9.6**
At 1 January 2013	0.7	7.2	0.9	–	8.8

Included in property, plant and equipment are assets held under finance lease of £0.2m at 31 December 2013 (2012: £0.5 million).

10 Intangible assets

	Customer Relationships	Intellectual Property	Goodwill	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2012	11.1	50.9	143.5	205.5
Acquisition of subsidiaries	8.9	10.8	72.3	92.0
Currency adjustment	(0.4)	(1.5)	(3.8)	(5.7)
At 1 January 2013	19.6	60.2	212.0	291.8
Acquisition of subsidiaries	0.5	0.3	1.3	2.1
Currency adjustment	-	0.1	0.2	0.3
At 31 December 2013	**20.1**	**60.6**	**213.5**	**294.2**
Amortisation:				
At 1 January 2012	(7.4)	(30.7)	(12.2)	(50.3)
Provided during the year	(2.7)	(5.4)	–	(8.1)
Currency adjustment	0.2	0.9	–	1.1
At 1 January 2013	(9.9)	(35.2)	(12.2)	(57.3)
Provided during the year	(2.4)	(5.1)	–	(7.5)
Impairment loss	–	–	(20.4)	(20.4)
Currency adjustment	–	–	–	–
At 31 December 2013	**(12.3)**	**(40.3)**	**(32.6)**	**(85.2)**
Net book value:				
At 31 December 2013	**7.8**	**20.3**	**180.9**	**209.0**
At 1 January 2013	9.7	25.0	199.8	234.5

Customer relationships and intellectual property are amortised on a straight-line basis over their estimated useful lives of between 5 and 10 years. As from 1 January 2004, the date of transition to IFRS, goodwill is no longer amortised but is now subject to annual impairment testing (see note 12).

11 Investments in subsidiaries

Details of the investments (excluding dormant companies) in which the Group or Company holds more than 20% of the nominal value of ordinary share capital are as follows:

Name of Company	Country of Incorporation	Holding	Proportion of Voting Rights	Primary nature of Business
Held directly:				
SDL Sheffield Limited	England & Wales	Ordinary	100%	Language Services
Software & Documentation Localisation France SARL	France	Ordinary	100%	Language Services
SDL Sweden AB	Sweden	Ordinary	100%	Language Services
SDL Global Solutions (Ireland) Limited	Ireland	Ordinary	100%	Language Services and Language Technologies
SDL International Belgium NV	Belgium	Ordinary	100%	Language Services
SDL Software Technology (Shenzhen) Co Ltd	China	Ordinary	100%	Language Services and Language Technologies
SDL Inc	United States of America	Ordinary	100%	Holding company
SDL Poland Sp zoo	Poland	Ordinary	100%	Language Services
SDL International America Inc	United States of America	Ordinary	100%	Language Services
SDL Japan KK	Japan	Ordinary	100%	Language Services and Language Technologies
SDL Holdings BV	Netherlands	Ordinary	100%	Holding company
SDL do Brazil Global Solutions Ltda	Brazil	Ordinary	100%	Language Services
SDL Trisoft NV	Belgium	Ordinary	100%	Content and Analytic Technologies
SDL Enterprise Technologies Inc	United States of America	Ordinary	100%	Language Technologies
SDL Multilingual Solutions Private Ltd	India	Ordinary	100%	Language Services
SDL Hellas MEPE	Greece	Ordinary	100%	Language Services
Automated Language Processing Services Ltd	England & Wales	Ordinary	100%	Holding company
SDL Turkey Translation Services & Commerce Ltd	Turkey	Ordinary	100%	Language Services
SDL Chile SA	Chile	Ordinary	100%	Language Services
Alterian Ltd	England & Wales	Ordinary	100%	Holding company
Bemoko Consulting Limited	England & Wales	Ordinary	100%	Content and Analytic Technologies
Held indirectly:				
SDL Passolo GmbH	Germany	Ordinary	100%	Language Technologies
SDL Italia Unipersonale Srl	Italy	Ordinary	100%	Language Services
Software Documentation Localization Spain, S.L	Spain	Ordinary	100%	Language Services
SDL International Nederland BV	Netherlands	Ordinary	100%	Language Services
SDL International (Canada) Inc	Canada	Ordinary	100%	Language Services
SDL Nederland Holding BV	Netherlands	Ordinary	100%	Language Services
SDL Tridion Holding BV	Netherlands	Ordinary	100%	Holding Company
SDL Multilingual Services GmbH & Co KG	Germany	Ordinary	100%	Language Services
SDL Multi-Lingual Solutions (Singapore) PTE Ltd	Singapore	Ordinary	100%	Language Services
SDL Magyaror szaj szolgaltato Kft	Hungary	Ordinary	100%	Language Services
SDL CZ sro	Czech Republic	Ordinary	100%	Language Services
SDL Traduceri SRL	Romania	Ordinary	100%	Language Services
SDL Zagreb doo	Croatia	Ordinary	100%	Language Services

Name of Company	Country of Incorporation	Holding	Proportion of Voting Rights	Primary nature of Business
SDL doo Ljubljana	Slovenia	Ordinary	100%	Language Services
Trados GmbH	Germany	Ordinary	100%	Language Technologies
SDL Tridion Corporate Services BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
SDL Tridion Development Centre LLC	Ukraine	Ordinary	100%	Content and Analytic Technologies
SDL Tridion Development Lab BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
SDL Tridion GmbH	Germany	Ordinary	100%	Content and Analytic Technologies
Tridion AB	Sweden	Ordinary	100%	Content and Analytic Technologies
SDL Tridion BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
SDL Tridion BVBA	Belgium	Ordinary	100%	Content and Analytic Technologies
SDL Tridion Hispania SL	Spain	Ordinary	100%	Content and Analytic Technologies
SDL Tridion SAS	France	Ordinary	100%	Content and Analytic Technologies
SDL Tridion Ltd	England & Wales	Ordinary	100%	Content and Analytic Technologies
SDL Tridion Inc	United States of America	Ordinary	100%	Content and Analytic Technologies
SDL Tridion KK	Japan	Ordinary	100%	Content and Analytic Technologies
Interlingua Group Ltd	England & Wales	Ordinary	100%	Holding company
Alp Services Inc	United States of America	Ordinary	100%	Holding company
SDL Multilingual Service GmbH	Germany	Ordinary	100%	Holding company
SDL Multilingual Services Verwaltung GmbH	Germany	Ordinary	100%	Holding company
SDL Quatron BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
ZAO SDL Rus	Russia	Ordinary	100%	Language Services
XyEnterprise Inc	United States of America	Ordinary	100%	Content and Analytic Technologies
XyEnterprise Ltd	England & Wales	Ordinary	100%	Content and Analytic Technologies
SDL Fredhopper Group BV	Netherlands	Ordinary	100%	Holding company
SDL Fredhopper Holding BV	Netherlands	Ordinary	100%	Holding company
SDL Fredhopper BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
SDL Fredhopper Ltd	England & Wales	Ordinary	100%	Content and Analytic Technologies
Spring Technologies Ltd	Bulgaria	Ordinary	100%	Content and Analytic Technologies
SDL Xopus BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
Language Weaver Inc	United States of America	Ordinary	100%	Language Technologies
Language Weaver SRL	Romania	Ordinary	100%	Language Technologies
SDL Media Manager Holding BV	Netherlands	Ordinary	100%	Holding company
SDL Media Manager BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
Alterian Holdings Ltd	England & Wales	Ordinary	100%	Holding company
Alterian Technology Ltd	England & Wales	Ordinary	100%	Content and Analytic Technologies
SDL Technologies India PVT Ltd (formerly Alterian Technologies India PVT Ltd)	India	Ordinary	100%	Content and Analytic Technologies
Intrepid Consultants Ltd	England & Wales	Ordinary	100%	Content and Analytic Technologies
SDL Technologies (Australia) Pty Ltd	Australia	Ordinary	100%	Content and Analytic Technologies
Alterian do Brazil Software e Servicos Ltda	Brazil	Ordinary	100%	Content and Analytic Technologies
Alterian BV	Netherlands	Ordinary	100%	Content and Analytic Technologies
Alterian Pte Ltd	Singapore	Ordinary	100%	Content and Analytic Technologies
Alterian Vietnam Co Ltd	Vietnam	Ordinary	100%	Content and Analytic Technologies

Name of Company	Country of Incorporation	Holding	Proportion of Voting Rights	Primary nature of Business
Alterian Holdings Inc	United States of America	Ordinary	100%	Holding company
Alterian Inc	United States of America	Ordinary	100%	Content and Analytic Technologies
Intrepid Consultants Inc	United States of America	Ordinary	100%	Content and Analytic Technologies
SDL Government Inc	United States of America	Ordinary	100%	Language Technologies

The proportion of voting rights held as at 31 December 2013 is as shown above. There have been no changes during 2013, with the exception of the acquisition of Bemoko Consulting Limited.

12 Impairment testing of goodwill and intangibles with indefinite lives

The Group has goodwill that has been acquired through business combinations but does not hold any intangible assets that have indefinite lives ascribed to them.

The approach of the Group is to test impairment at the cash generating unit level. This is the lowest level of unit at which the Group is effectively able to manage and monitor performance, cash flow and goodwill. Following the Group's reorganisation in 2013, the Board has reassessed the Group's cash generating units (CGUs) and have determined that there are three CGUs for testing; Language Services, Language Technologies and Content and Analytic Technologies. The prior year CGUs of Web Content Management, Structured Content and Campaign Analytics and Social Intelligence are incorporated within the Content and Analytic Technologies CGU. The goodwill has been allocated for impairment testing purposes to these cash generating units and full attribution of overheads and group costs has been made to each of the units in testing impairment.

In order to evaluate the recoverable amounts relating to the cash-generating units the following key information should be noted.

The recoverable amount has been determined using the detailed projections from the 2014 annual plan projected for either a five year period (Language Services and Language Technology) or a ten year period (Content & Analytic Technologies) and subsequently into perpetuity, with a discount rate applied. A 10 year forecast period has been used for Content and Analytic Technologies in recognition of the developing nature of some of its technologies.

The discount rate has been calculated as the weighted average cost of capital. Differential post-tax discount rates were used reflecting a different risk weighting based on relative maturity and size of the different cash generating units with 10.6% applied to Language Services (2012: 10.0%), 11.6% to Language Technologies (2012: 11.4%) and 11.2% to Content & Analytic Technologies (2012: 10.7%-11.0%). These reflect the relative maturity of the businesses and in aggregate approximate a group cost of capital of 11.1% for 2013 (2012: 10.6%). Pre tax discount rates range from 12.5% to 13.8%. The budget has been prepared at the cash generating unit level based on historical trends adjusted for expected events. These individual budgets have been aggregated as the basis for the 2014 annual plan.

This methodology places strong emphasis on early year cash flows in evaluating impairment. The valuation is on a value in-use basis but has decreased average perpetual growth rates to 2.5% from the 3.2% used in 2012. Differential perpetual growth rates have been used reflecting the relative maturity, penetration and profile of the cash generating units with 2% applied to Language Services and 3% applied to Language Technologies and Content & Analytic Technologies. Whilst the rates of growth vary across individual cash generating units, a long term average growth rate for the 5 years pre-perpetuity of 6.3% (2012: 9%) has been used for the tests. Differential growth rates have been applied to the different cash-generating units according to growth projections of 5% (2012 – 5%) for Language Services, 8% (2012 - 10-11%) for Language Technologies and 3-9% (2012 - 3-16%) for Content & Analytic Technologies.

Following a disappointing trading year and the completion of this year's impairment review, the group has determined that the carrying value of goodwill in its Content and Analytic Technologies CGU has been impaired by £20.4m. This amount has been charged to the profit and loss account during the year (see note 4).

Carrying amount of goodwill allocated to cash-generating units:	**2013 £m**	2012 £m
Language Services	**21.0**	21.0
Content and Analytic Technologies	**98.3**	116.9
Language Technologies	**61.6**	61.9
	180.9	199.8

Sensitivity to changes in assumptions

Management has identified four key assumptions for which there could be a reasonably possible change that would cause the carrying amount to exceed the recoverable amount.

The following table shows the absolute amount by which these assumptions would need to change individually in order for the estimated recoverable amount of the Language Technologies CGU to be equal to the carrying amount.

	Change required for the carrying amount to equal recoverable amount 2013
Discount Rate	**0.6%**
PBT growth (average of next 5 years)	**(1.2%)**
Perpetuity growth rate	**(0.9%)**
Revenue growth (CAGR)	**(0.6%)**

Having performed its impairment test on the Language Services CGU and having analysed the various sensitivities to this test, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the Language Services CGU to exceed its recoverable amount.

Following the impairment recognised in the Groups' Content and Analytic Technologies CGU, the recoverable amount is equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment.

Next impairment test

The next impairment tests will be performed at the 2014 year end. However, management continues to monitor the performance of its cash generating units closely and should it believe a significant event has occurred which deteriorates the forward operating prospects of the business it will bring forward these tests.

13 Trade and other receivables (current)

	2013 £m	2012 £m
Trade receivables	**53.0**	50.4
Corporation tax	**3.5**	1.2
Prepayments and accrued income	**14.4**	14.4
	70.9	66.0

All amounts are due within one year. Trade receivables are non-interest bearing and on average have thirty to sixty day settlement terms. Accrued income is the value of unbilled work recognised on projects in accordance with the accounting policy outlined in Note 2.

As at 31 December 2013, trade receivables at nominal value of £2.0 million (2012: £1.7 million) were impaired and provided for. Movements in the provision for impairment of receivables were as follows:

	Total £m
At 1 January 2012	0.9
Acquired companies provision at date of acquisition	1.0
Charge for the year	0.6
Utilised in the year	(0.7)
Currency adjustment	(0.1)
At 31 December 2012	1.7
Charge for the year	0.8
Utilised in the year	(0.5)
Currency adjustment	–
At 31 December 2013	**2.0**

As at 31 December, the ageing analysis of trade receivables, net of impairment, is as follows:

	Total £m	Not past due nor impaired £m	Past due but not impaired <30 days £m	30-60 days £m	>60 days £m
2013	**53.0**	**44.7**	**6.6**	**1.3**	**0.4**
2012	50.4	43.1	5.3	1.0	1.0

14 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	**18.2**	28.5

Where cash at bank and in hand earns interest, interest accrues at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents is £18.2m (2012: £28.5m).

At 31 December 2013, the Group had available £10 million (2012: £4.8 million) of undrawn committed borrowing facilities.

For the purposes of the cash flow statement, cash and cash equivalents comprise the amounts shown above.

15 Trade and other payables (current)

	2013 £m	2012 £m
Trade payables	6.3	6.8
Other taxes and social security costs	3.9	2.9
Other payables	6.0	5.6
Accruals and deferred income	63.7	57.4
	79.9	72.7

The terms and conditions of the above financial liabilities are as follows:

Trade payables are non-interest bearing and are normally settled within 45 days.

Other taxes and social security costs are non-interest bearing and have an average term of 1 month.

Other payables, generally, are non-interest bearing and have an average term of 2 months.

16 Trade and other payables (non-current)

	2013 £m	2012 £m
Other payables	0.6	0.1
Deferred income	2.0	2.0
	2.6	2.1

Other payables include amounts payable under finance lease arrangements for purchase of property, plant and equipment.

The amounts payable under finance leases are set out below:

	Future minimum lease payments 2013 £m	**Interest 2013 £m**	**Present value of minimum lease payments 2013 £m**	Future minimum lease payments 2012 £m	Interest 2012 £m	Present value of minimum lease payments 2012 £m
Within one year	**0.2**	**–**	**0.2**	0.2	–	0.2
After one year but not more than five years	**0.2**	**–**	**0.2**	0.1	–	0.1
	0.4	**–**	**0.4**	0.3	–	0.3

17 Loans and overdraft

	2013 £m	2012 £m
Current instalments due on bank loans	20.0	22.2
£20 million variable rate secured term loan	–	20.0
£7 million variable secured term loan	–	2.2
£30 million variable rate secured term loan	20.0	–
	20.0	22.2

During the year, the Group repaid £2.2 million, being the amount outstanding at 31 December 2012 on the Group's £7 million facility. On 28 June 2013, the Group entered into a new £30 million facility with Royal Bank of Scotland replacing the Group's £20 million facility (fully drawn) and the Group's £7 million facility (undrawn). This increased the Group facility by £3 million.

The loans are secured on the net assets of the Group companies held in the certain subsidiaries. The £20 million loan is repayable in three and six month instalments, under a revolving facility that expires on 28 September 2015. The loan bears interest at LIBOR+1.15%.

18 Provisions

	Property Leases £m	Other £m	Total £m
At 1 January 2013	1.0	1.4	2.4
Arising during the year	0.4	1.4	1.8
Utilised	(0.2)	(0.8)	(1.0)
At 31 December 2013	**1.2**	**2.0**	**3.2**
Current 2013	**0.6**	**1.7**	**2.3**
Non-current 2013	**0.6**	**0.3**	**0.9**
	1.2	**2.0**	**3.2**
Current 2012	0.5	1.1	1.6
Non-current 2012	0.5	0.3	0.8
	1.0	1.4	2.4

Property Leases

The provision for property leases is in respect of leasehold premises, from which the Group no longer trades, but is liable to fulfil rent and other property commitments up to the lease expiry date. Obligations are payable within a range of one to 8 years. Amounts provided are management's best estimate of the likely future cash outflows. The provision has been discounted using market interest rates. The undiscounted provision is £1.3 million (2012: £1.1 million).

Other

Other provisions include a number of employee, legal and product related amounts. Obligations are payable within 1-3 years. Included in the above is a provision for £1.7 million (2012: £1.1 million) for ongoing litigation related to a former Trados shareholder's claim of breach of fiduciary duty by the former Trados Directors on the sale of Trados to SDL in 2005.

19 Share capital

Allotted, called up and fully paid

	2013 millions	2012 millions	**2013 £m**	2012 £m
Ordinary shares of 1p each				
At 1 January	**80.2**	79.2	**0.8**	0.8
Issued on exercise of share options	–	0.2	–	–
Issued on exercise of LTIPS	–	0.7	–	–
Issued as payment of deferred consideration	**0.2**	0.1	–	–
At 31 December	**80.4**	80.2	**0.8**	0.8

The following movements in the ordinary share capital of the company occurred during the year:

1. 24,000 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (1999), SDL Share Option Scheme (2010) and earlier Unapproved Option Schemes at a price range of 117 pence to 279 pence per share for an aggregate consideration of £45,103.
2. No ordinary shares of 1p each were allotted under the SDL LTIP Scheme.
3. 8,563 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes at a price of 286 pence per share for an aggregate consideration of £24,490.
4. In August 2013 92,861 ordinary shares of 1p each were allotted to six former shareholders of Intrepid Consultants Inc as payment of the contingent consideration due as a result of the acquisition of Intrepid Consultants Inc by the Alterian plc group in 2010.
5. In August 2013 57,120 ordinary shares of 1p each were allotted to four former shareholders of Bemoko Consulting Limited as payment of the contingent consideration due as a result of the acquisition of Bemoko Consulting Limited by the Group in 2013.

20 Share-based payment plans

On 23 April 2010, following shareholder approval, the "SDL Share Option Scheme (2010)" was adopted. This replaced the "SDL Share Option Scheme (1999)" for which options are still exercisable. The SDL Share Option Scheme (2010) permits the granting of both options approved by HM Revenue and Customs within the statutory £30,000 limit and unapproved options, subject to performance conditions. From 2010 onwards, all options have been granted in accordance with these rules.

The SDL Long Term Share Incentive Plan, which was approved by shareholders in April 2006 ("the 2006 plan"), expired for the purposes of new awards in April 2011. No further awards could be made after the expiry date but existing awards will remain protected although they will only vest to the extent that the related performance conditions are met.

The 2006 plan has been replaced with the SDL Long Term Share Incentive Plan (2011) ("the 2011 Plan") which received approval from shareholders in April 2011. The 2011 Plan is broadly similar in construction. It has been updated to reflect current law and market practice and the proposed performance conditions are designed to be more closely aligned to the company's current business strategy and objectives.

On 17 April 2013, 1,137,026 shares were granted under a Retention Share Plan to a small group of senior management excluding Executive Directors. The shares will vest in two equal tranches over a two year period on the anniversary of the grant date, subject to the achievement of specified performance criteria. The Retention Share Plan was not approved by shareholders and therefore any shares that vest will be purchased by the Company via the Employee Benefit Trust. There were no shares purchased in 2013. The Remuneration Committee has the discretion to settle any awards that vest in cash or via shares.

On 17 April 2013, 211,607 shares were granted under the 2011 Plan to the Executive Directors based on a market price of £4.20, with a performance period of three years from date of grant. Senior management employees received awards of 981.923 on 17 April 2013.

On 24 April 2008 a Save As You Earn (SAYE) scheme was formally approved by the shareholders at the AGM. Following the success of the UK and Netherlands SAYE schemes, in 2012 an extension to the international version was rolled out to SDL plc's subsidiary companies in the United States and Canada. The rules are based on those of the UK in that employees must be eligible and there is a monthly savings contract over a 3 year period. In 2013 and 2012 options were granted to UK, Netherlands, Canada and United States scheme participants at 80% of the prevailing market price. The market price is taken the day prior to the date of invitations to apply for an option. There are no performance conditions attached to the exercise of these options. These options may be exercised within a fixed six-month period, three years from the date of grant or being made redundant.

In recognition of the fact that there may be three consecutive years in which the LTIP and Option awards are unlikely to meet the performance criteria required to vest, the Board has approved a share-based discretionary award which has been made to a small targeted group of executives. The Board believes that this Retention Share Plan (RSP) will provide benefit to the Group by creating appropriate performance incentives and facilitating the long-term retention of employees who add significant value.

Shares will be provided by market purchase via the Employee Benefit Trust. The funding of the trust will be by way of a loan to the trustees. Awards are based on a percentage of salary and vest in equal tranches over two years, any unvested portion of the first tranche lapses.

Included within administrative expenses is a charge of £1.2 million relating to the above schemes (2012: credit of £1.1 million which related to 2010, 2011 and 2012 Long Term Incentive awards and Option Scheme grants which did not, or are not expected to, vest).

SDL Share Option Scheme

The table below sets out the number and weighted average exercise prices (WAEP) of, and movements in, the SDL Share Options Scheme during the year:

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding at the beginning of the year	**1,025,737**	**£3.84**	1,156,157	£3.15
Granted during the year	**353,331**	**£4.20**	166,545	£7.48
Forfeited during the year	**(180,050)**	**£4.89**	(103,459)	£5.45
Exercised during the year	**(24,000)**	**£1.88**	(193,506)	£1.99
Outstanding at the end of the year	**1,175,018**	**£3.83**	1,025,737	£3.84
Exercisable at 31 December	**554,993**	**£1.95**	578,993	£1.95

The weighted average share price at the date of exercise for the options exercised is £3.90 (2012: £6.63).

For the share options outstanding as at 31 December 2013, the weighted average remaining contractual life is 5.76 years (2012: 5.64 years).

The fair value of equity settled share options granted under the SDL Share Option Scheme is estimated as at the date of grant using the Black Scholes model. The following table lists the inputs and key output to the model:

	2013	2012
Weighted average share price (pence)	**420**	748
Weighted average fair value at grant date (pence)	**67**	144
Expected volatility	**30%**	30%
Expected option life	**3 years**	4 years
Expected dividends	**2%**	1%
Risk-free interest rate	**0.3%**	0.5%

The range of exercise prices for options outstanding at the end of the year was £1.17-£7.48 (2012: £1.17-£7.48).

	Date of Grant	Exercise Period	2013 Number	2012 Number
£1.01 - £1.50	**02/04/04-04/04/05**	10 years after grant date	**291,618**	305,118
£2.01 - £2.50	**22/03/06-03/10/06**	10 years after grant date	**23,700**	23,700
£2.51 - £3.00	**28/02/08-02/03/09**	10 years after grant date	**234,475**	244,975
£3.51 - £4.00	**23/5/07**	10 years after grant date	**5,200**	5,200
£4.01 - £4.50	**17/04/13**	10 years after grant date	**336,899**	–
£4.51 - £5.00	**12/04/10**	10 years after grant date	**–**	119,115
£5.01 - £5.50	**10/09/10**	10 years after grant date	**–**	29,070
£6.51 - £7.00	**18/05/11**	10 years after grant date	**146,331**	151,296
£7.01 - £7.50	**10/04/12**	10 years after grant date	**136,795**	147,263
Total			**1,175,018**	1,025,737

SDL Long Term Incentive Plan

The fair value of equity-settled shares granted under the SDL Long Term Incentive Plan is estimated as at the date of grant using a Monte-Carlo model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs and key output to the model used in the year of grant:

	2013	2012
Expected volatility	**31%**	30%
Weighted average fair value at grant date (pence)	**102**	467
Expected life	**3 years**	3 years
Expected dividends	**2%**	1%
Risk-free interest rate	**0.3%**	0.5%

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding at the beginning of the year	**1,710,108**	**£0.01**	2,304,736	£0.01
Granted during the year	**1,193,530**	**£0.01**	667,356	£0.01
Exercised during the year	**–**	**–**	(711,918)	£0.01
Forfeited during the year	**(989,800)**	**£0.01**	(550,066)	£0.01
Outstanding at the end of the year	**1,913,838**	**£0.01**	1,710,108	£0.01
Exercisable at 31 December	**Nil**		Nil	–

All LTIPs are exercisable at nil cost to the individual (with the exception of the 1p nominal value of each share awarded).

Retention Share Plan

The fair value of equity-settled shares granted under the SDL Retention Share Plan is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs and key output to the model used in the year of grant:

	2013
Expected volatility	**30.2%**
Weighted average fair value at grant date (pence)	**392**
Expected life	**1.5 years**
Expected dividends	**1.5%**
Risk-free interest rate	**0.18%**

	2013 No.
Outstanding at the beginning of the year	-
Granted during the year	**1,137,026**
Forfeited during the year	**(458,830)**
Outstanding at the end of the year	**678,196**
Exercisable at 31 December	**Nil**

All RSPs are exercisable at nil cost to the individual (with the exception of the 1p nominal value of each share awarded).

SDL Save As You Earn Scheme

The table below sets out the number and movements in, the SDL Save As You Earn Scheme during the year:

	2013 No.	2012 No.
Outstanding at the beginning of the year	**296,407**	149,567
Granted during the year	**323,215**	214,131
Exercised during the year	**(8,563)**	(31,861)
Forfeited during the year	**(219,612)**	(35,430)
Outstanding at the end of the year	**391,447**	296,407
Exercisable at 31 December	**Nil**	Nil

For the SAYE shares outstanding as at 31 December 2013, the weighted average remaining contractual life is 1.82 years (2012: 1.86 years).

The fair value of equity settled share options granted under the SDL SAYE Scheme is estimated as at the date of grant using the Black Scholes model. The following table lists the inputs and key output to the model in the year of grant:

	2013	2012
Weighted average share price (pence)	**324**	599
Expected volatility	**36%**	29%
Expected option life	**1.4 years**	3.5 years
Expected dividends	**1%**	1%
Risk-free interest rate	**0.5%**	0.2%

For all Share Based payment models, the volatility is calculated from compounded daily logs of normal returns of the company share price over a historic period commensurate with the expected life of the incentive.

21 Additional cash flow information

Analysis of Group net debt:	**1 January 2013 £m**	**Cash flow £m**	**Cash acquired on acquisition £m**	**Exchange differences £m**	**31 December 2013 £m**
Cash and cash equivalents	**28.5**	(9.6)	0.2	(0.9)	**18.2**
Loans	**(22.2)**	2.2	–	–	**(20.0)**
	6.3	(7.4)	0.2	(0.9)	**(1.8)**

	1 January 2012 £m	Cash flow £m	Debt acquired on acquisition £m	Exchange differences £m	31 December 2012 £m
Cash and cash equivalents	70.4	(41.8)	0.6	(0.7)	28.5
Loans	–	(20.3)	(1.9)	–	(22.2)
	70.4	(62.1)	(1.3)	(0.7)	6.3

22 Commitments and contingencies

The Group has entered into commercial leases on certain properties used as offices. The future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Land and buildings		**Other**		**Total**	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Within one year	**5.2**	5.2	**0.6**	1.6	**5.8**	6.8
After one year but not more than five years	**15.9**	17.6	**1.2**	0.7	**17.1**	18.3
More than five years	**2.6**	4.4	**-**	-	**2.6**	4.4
	23.7	27.2	**1.8**	2.3	**25.5**	29.5

The future minimum rentals receivable under non-cancellable operating leases as at 31 December 2013 were £0.2 million (2012: £0.4 million).

23 Related party disclosures

Compensation of key management personnel of the Group	**2013 £m**	2012 £m
Short term employee benefits	**1.1**	1.7
Post employment benefits	**0.1**	0.1
Gains on exercise of LTIPS	**–**	0.5
Total compensation paid to key management personnel	**1.2**	2.3

Transactions between group companies, which are related parties, have been eliminated on consolidation and have not been included in this note. The key management personnel are the Executive Directors of the Group.

24 Financial risk management objectives and policies

An explanation of the Group's financial risk management objectives, policies and strategies are set out in the Strategic Report on pages 6 to 19.

Interest Rate Risk: Net debt has decreased from £6.3 million cash in 2012 to £1.8 million net debt in 2013. Borrowings amounted to £20.0 million at December 2013 (see note 17) which bears interest at LIBOR +1.15%. The Board remains of the opinion that operating with low levels of debt is appropriate in the current economic environment, whilst maintaining sufficient debt facility headroom to finance normal investment activities.

To ensure adequate working capital the Group maintains cash deposits and these deposits are affected by any movements in rates of interest generally. These cash deposits are generally receiving interest income at LIBOR (or USD, EURO equivalent) plus a margin. The Group seeks to place all cash surplus to operational requirements in secure money market funds. To enhance the interest earning capacity of the Group, processes have been put in place to ensure that cash balances held by subsidiary companies are kept as low as operationally possible. With regard to relative interest rates, adequate cash is retained in key operating currencies to fund the operational needs of the Group.

The following table demonstrates the sensitivity to a 1 percent change in the UK £ interest rate:

Profit before tax gain/(loss)	2013 £m	2012 £m
+ 1 %	**(0.2)**	(0.2)
– 1 %	**0.2**	0.2

The following table demonstrates the sensitivity to a 1 percent change in the Euro interest rate:

Profit before tax gain/(loss)	2013 £m	2012 £m
+ 1 %	**–**	–
– 1 %	**(–)**	(–)

The following table demonstrates the sensitivity to a 1 percent change in the US$ interest rate:

Profit before tax gain/(loss)	2013 £m	2012 £m
+ 1 %	**0.1**	0.1
– 1 %	**(0.1)**	(0.1)

Liquidity Risk: The Group's objective is to optimise the funds currently available to it in order to maintain the lowest operational borrowing profile necessary. At the end of 2013 the Group had net debt of £1.8 million which comprised of cash balances of £18.2 million and loans of £20.0 million. Underpinning this philosophy are processes to manage operating cash flow, with a focus on approvals policy for significant cash outlays and credit control.

Foreign Currency Risk: A significant amount of business is done with customers in both the USA and Continental Europe with approximately 44% of total invoicing done in US Dollar and 30% in Euro. The most significant sensitivity is to the US Dollar as illustrated below. This overseas client base gives rise to short-term debtors and cash balances in both US Dollars and Euros. Consequently, the movements in the US Dollar/Sterling and Euro/Sterling exchange rates affect the Group Balance Sheet, as well as the Consolidated Income Statement. The Group seeks to manage this risk in the first instance by looking to a natural hedge and ensuring where possible currency needs in the USA are funded from the settlement of US Dollar denominated debtors. After a review of effectiveness the Group has not entered into any new US Dollar hedges since 2008. At the end of 2013 the Group has no hedges outstanding.

In addition, the Group has exposure on the Balance Sheet to the movements in US Dollar/Sterling and Euro/Sterling exchange rates as a result of intangible assets held in non functional currency, the retranslation of US and continental European overseas subsidiaries net assets into UK Sterling for consolidation purposes and finally intercompany loan and trading relationships held in non functional currency. In the case of the latter, this can have an impact on net profitability where the intercompany relationships are not treated for accounting purposes as equity loans.

The Consolidated Income Statement is also affected by movements in the US Dollar/Sterling and Euro/Sterling exchange rates when sales to customers are converted to Sterling at the date of the sales transaction, as this will vary from month to month. This is partially offset by the effect of retranslating US Dollar and Euro denominated costs into UK Sterling from month to month.

The following table demonstrates the sensitivity to a 1 cent change in the US Dollar exchange rate:

Profit before tax gain/(loss)	2013 £m	2012 £m
+ 1 cent	**(0.3)**	(0.4)
– 1 cent	**0.3**	0.4
Statement of Financial Position* increase/(decrease) in net assets		
+ 1 cent	**(0.4)**	(0.5)
– 1 cent	**0.4**	0.5

The following table demonstrates the sensitivity to a 1 cent change in the Euro exchange rate:

Profit before tax gain/(loss)	2013 £m	2012 £m
+ 1 cent	**(0.1)**	(0.1)
– 1 cent	**0.1**	0.1
Statement of Financial Position* increase/(decrease) in net assets		
+ 1 cent	**(1.1)**	(1.1)
– 1 cent	**1.1**	1.1

** Based on the Statement of Financial Position at 31 December*

Economic Conditions - Credit Control Risk: Given the economic conditions at the end of 2013, SDL continues to benefit from a diverse list of major clients of which no client contributes more than 5% of sales. The Group is however continuing to place emphasis on sound application of credit control processes given the recent deterioration in macro-economic conditions. The Group has made provision against trade receivables to reflect specific collection risks identified.

Capital Management: The Board monitors the total equity and the cash and cash equivalents balance in considering its retained capital and when and how a return of capital to shareholders is appropriate. The Group maintains a strong capital base so as to maintain employee, customer, market, investor and creditor confidence in the business and to ensure that it continues to operate as a going concern. The Board operates a progressive dividend policy whereby dividends are set based on the evolution of the Group's profits. As a result of the restructuring and investment costs in 2013, the Board will not be recommending a final dividend in respect of the year end ended 31 December 2013.

25 Derivatives and other financial instruments

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

Year ended 31 December 2013

Floating rate	Within 1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	4 - 5 years £m	More than 5 years £m	Total £m
Cash	18.2	–	–	–	–	–	18.2
Borrowings	(20.0)	–	–	–	–	–	(20.0)
Net cash	(1.8)	–	–	–	–	–	(1.8)

Year ended 31 December 2012

Floating rate	Within 1 year £m	1 - 2 years £m	2 - 3 years £m	3 - 4 years £m	4 - 5 years £m	More than 5 years £m	Total £m
Cash	28.5	–	–	–	–	–	28.5
Borrowings	(22.2)	–	–	–	–	–	(22.2)
Net cash	6.3	–	–	–	–	–	6.3

Maturity of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013:

Floating rate	Less than 12 months £m	Over 12 months £m	Total £m
Other liabilities	22.3	1.1	23.4
Trade and other payables	48.9	–	48.9
	71.2	1.1	72.3

The above table excludes accruals and deferred income.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012:

	Less than 12 months £m	Over 12 months £m	Total £m
Other liabilities	23.8	0.9	24.7
Trade and other payables	47.9	–	47.9
	71.7	0.9	72.6

The fair value of the contingent consideration included in other payables is estimated by reviewing purchase documentation and forecast information. This represents a level 3 measurement in the fair value hierarchy under IFRS 7. Any subsequent remeasurement to this liability will be recorded in the income statement.

Borrowing facilities

During the year, the Group repaid £2.2 million, being the amount outstanding at 31 December 2012 on the Group's £7 million facility. On 28 June 2013, the Group entered into a new £30 million facility with Royal Bank of Scotland replacing the Group's £20 million facility (fully drawn) and the Group's £7 million facility (undrawn). This increases the Group facility by £3 million. This new facility expires on 28 September 2015 and the amount drawn at 31 December 2013 was £20 million.

Credit risk

The maximum credit risk exposure related to financial assets is represented by the carrying value as at the balance sheet date.

Fair values of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair value. Fair values of assets and liabilities are based on their carrying values. The directors consider that there were no material differences between the book values and fair values of all the Group's financial assets and liabilities at each year-end. The fair values have been calculated using the market interest rates where applicable.

There are no hedging arrangements in place as at 31 December 2013 (2012: None).

The interest rate risk on the borrowings at 31 December 2013 is directly linked to the 3 month and 6 month LIBOR and is set out in note 17. The interest rates that the Group would pay under the facilities are linked directly to these LIBOR rates.

26 Events after the statement of financial position date

There are no known events occurring after the statement of financial position date that require disclosure.

Company Balance Sheet

at 31 December 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Tangible assets	2	**1.0**	0.8
Investments in subsidiaries	3	**198.7**	216.1
Rent deposits		**0.1**	0.1
		199.8	217.0
Current assets			
Debtors: amounts falling due within one year	4	**52.2**	46.3
Debtors: amounts falling due after more than one year	4	**8.7**	14.8
Cash at bank and in hand		**0.5**	4.2
		61.4	65.3
Current liabilities			
Creditors: amounts falling due within one year	5	**(95.7)**	(95.0)
Interest bearing Loans and Borrowings	6	**(20.0)**	(20.0)
		(115.7)	(115.0)
Net current liabilities		**(54.3)**	(49.7)
Total assets less current liabilities		**145.5**	167.3
Creditors: amounts falling due after more than one year	7	**(26.6)**	(21.0)
Provisions for liabilities and charges	8	**(2.2)**	(1.5)
		116.7	144.8
Capital and reserves			
Called up share capital	9,10	**0.8**	0.8
Share premium account	10	**97.4**	96.8
Profit and loss account	10	**18.5**	47.2
Total equity		**116.7**	144.8

Approved by the Board of directors on 18 March 2014

M Lancaster
Director

D Lavelle
Director

Notes to the Accounts

for the year ended 31 December 2013

1 Accounting policies

The principal accounting policies that have been consistently applied in arriving at the financial information set out in this report are:

Accounting convention

The financial statements are prepared under the historical cost convention as modified for certain items which have been measured at fair value, namely financial instruments. The financial statements are presented in accordance with applicable accounting standards in the United Kingdom.

Basis of preparation of financial statements

No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006. The Company's result for the year is shown in note 13.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Leasehold improvements – The lower of ten years or the lease term straight line

Computer equipment – 4-5 years straight line

Fixtures & fittings – 20% reducing balance

Motor vehicles – 20% reducing balance

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The currency translation differences on retranslation of the foreign branches at the balance sheet date are recognised directly in equity.

Financial instruments

The Company uses forward foreign currency contracts and options to reduce exposure to foreign exchange rates. The Company also uses interest rate swaps to adjust interest rate exposures. Such instruments are stated at fair value. Gains and losses arising from changes in fair value are taken to the profit and loss account in the period.

The Group's consolidated financial statements contain financial instrument disclosures which comply with FRS 29 'Financial Instruments: Disclosures'. Consequently, the Company has taken advantage of the exemption in FRS 29 not to present separate financial instrument disclosures for the Company.

Leases

Assets acquired under finance leases and hire purchase contracts are capitalised and the outstanding future obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease. Operating lease income is credited to the profit and loss account on a straight-line basis over the period of the lease.

Incentives received from landlord

In accordance with UITF 28, the aggregate benefit of incentives is recognised as a credit to the profit and loss account. The benefits of the incentives are allocated over the life of the lease on a straight line basis.

Pension cost

The Company contributes to a group personal pension scheme for qualifying employees whereby it makes defined contributions to independently administered personal pension schemes. The company does not control any of the assets or have any ongoing liabilities with regard to the performance of and payments from these individual personal schemes.

Research and development

Research and development costs are written off as incurred in the year of expenditure.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

- **Rendering of services**

  Revenue on service contracts is recognised only when their outcomes can be foreseen with reasonable certainty and is based on the percentage stage of completion of the contracts, calculated on the basis of costs incurred. Accrued and deferred revenue arising on long-term contracts is included in debtors as accrued income and creditors as deferred income as appropriate.

  Support and maintenance contracts are invoiced in advance and normally run for periods of 12 months with automatic renewal on the anniversary date. Revenue in respect of support and maintenance contracts is recognised evenly over the 12 months commencing from the date of the contract period.

  Managed services (hosting) fees are recognised over the term of the hosting contract on a straight-line basis.

  Professional services and consulting revenue, which is provided on a 'time and expense' basis, is recognised as the service is performed.

  For multiple element arrangements revenue is allocated to each element on fair value regardless of any separate prices stated within the contract. The portion of the revenue allocated to an element is recognised when the revenue recognition criteria for that element have been met.

- **Sale of goods**

  Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods.

  Revenue on software licenses and upgrades is recognised on despatch, when there are no significant vendor obligations remaining and the collection of the resulting receivable is considered probable. In circumstances where a considerable future vendor obligation exists as part of a software licence and related services contract, revenue is recognised over the period that the obligation exists per the contract.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred arising from timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from fair value adjustments of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

National Insurance Contributions on Share Option Gains

Following the issuance of UITF abstract 25 "National Insurance contributions on Share Option Gains" the Company makes provision for the National Insurance contributions on a straight-line basis over the vesting period of the options and as remeasured each period thereafter until the options are exercised. The remeasurement is based upon the share price at the year-end.

Cash flow statement

The Company has taken advantage of the exemption granted by Financial Reporting Standard 1 to not present a cash flow statement.

Related party transactions

The Company has taken advantage of the exemption granted by Financial Reporting Standard 8 from disclosing related party transactions with entities that are 100% owned by the SDL plc group.

Investments

Investments are recorded at cost.

Investments denominated in foreign currency are recorded using the rate of exchange at the date of acquisition and reviewed annually for evidence of impairment.

Financial Assets

Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost less any provision for impairment in value.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use, where value in use is calculated as the present value of the future cash flows expected to be derived from the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Investments in unquoted equity investments which do not have a reliable market value are stated at cost less provision for any impairment in value. For investments where there is an actively traded market the investment is stated at fair value, determined by reference to a quoted market bid price at the close of business on the balance sheet date.

Cash

Cash in bank represents cash in hand and deposits repayable with any qualifying institution.

Debtors

Debtors are recorded at fair value on initial measurement and are provided for where management consider an element of the balance to be irrecoverable.

Financial liabilities

Financial liabilities are recognised when the Company becomes party to the contracts which give rise to them and are classified as financial liabilities at fair value through the profit and loss or loans and payables as appropriate. When financial liabilities are recognised initially, they are measured at fair value, plus in the case of financial liabilities not at fair value through profit and loss, directly attributable transaction costs. The Company determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at each financial year end.

A financial liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Financial liabilities at fair value through profit and loss constitute financial guarantee contracts. The fair value is calculated based on an assessment of both the likelihood that the financial guarantee would be called upon and expected cash flows which could arise. Liabilities are carried in the balance sheet at fair value and re-evaluated at each financial year end, with gains or losses recognised in the profit and loss account.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and management believe it to be probable that the Company will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to net present value where this is deemed to be material.

Bank borrowings

Interest bearing bank loans are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement and direct issue costs, are accounted for on an accruals basis in the profit and loss account using the effective rate of interest method.

Share based payments

Employees (including directors) of the company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by using an appropriate option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, ending on the date on which the relevant employees become entitled to the award ('vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards and has applied FRS 20 only to equity-settled awards granted after 7 November 2002 that had not vested at 1 January 2005.

In accordance with UITF 25, National Insurance on Share Option Grants, the anticipated National Insurance charge on gains made by employees over the period from date of grant of the option to the end of the performance period has been provided for.

Group and Treasury share transactions

Where a parent entity grants rights to its equity instruments to its employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements of the parent, FRS 20 requires the subsidiary to record an expense for such compensation, with a corresponding increase recognised in equity as a contribution from the parent. Consequently, in the financial statements of the Company, the Company recognises an increase in fixed asset investments or amounts owed by group companies for the aggregate amount of these contributions, with a credit to equity for the same amount.

2 Tangible fixed assets

	Leasehold Improvements £m	Computer Equipment £m	Fixtures & Fittings £m	Motor Vehicles £m	Total £m
Cost					
At 1 January 2013	0.6	1.3	0.9	–	2.8
Currency adjustment	–	–	–	–	–
Additions	–	0.6	–	–	0.6
Disposals	–	(0.5)	(0.5)	–	(1.0)
At 31 December 2013	**0.6**	**1.4**	**0.4**	**–**	**2.4**
Depreciation					
At 1 January 2013	(0.5)	(0.7)	(0.8)	–	(2.0)
Currency adjustment	–	–	–	–	–
Provided during the year	–	(0.4)	–	–	(0.4)
Disposals	–	0.5	0.5	–	1.0
At 31 December 2013	**(0.5)**	**(0.6)**	**(0.3)**	**–**	**(1.4)**
Net book value					
At 31 December 2013	**0.1**	**0.8**	**0.1**	**–**	**1.0**
At 31 December 2012	0.1	0.6	0.1	–	0.8

The net book value of assets held under finance leases is £nil as at 31 December 2013 (2012: £nil).

3 Investments in subsidiaries

Details of the investments in which the Company holds more than 20% of the nominal value of ordinary share capital are given in Note 11 of the Group financial statements.

	£m
Cost	
At 1 January 2013	216.1
Addition during the year: Bemoko Consulting Limited	2.2
Adjustment re share option credit	0.8
At 31 December 2013	**219.1**
Impairment	
At 1 January 2013	–
Charge for the year	(20.4)
At 31 December 2013	**(20.4)**
Net book value	
At 31 December 2013	**198.7**
At 31 December 2012	216.1

4 Debtors

Debtors: Amounts falling due within one year	2013 £m	2012 £m
Trade debtors	**6.1**	4.0
Amounts owed by Group undertakings	**41.8**	38.7
Corporation Tax	**0.8**	–
Deferred income tax asset	**1.2**	0.8
Prepayments and accrued income	**2.3**	2.8
	52.2	46.3

Accrued income is the value of unbilled work recognised on projects per the accounting policy outlined in Note 1.

Debtors: Amounts falling due after more than one year	2013 £m	2012 £m
Amounts owed by Group undertakings	**8.7**	14.8
	8.7	14.8

Amounts owed by Group undertakings comprise intra-group loans which fall due after more than 5 years and bear interest at rates of LIBOR+2%.

The amounts recognised and unrecognised for deferred income tax are set out below:

	Recognised 2013 £m	Unrecognised 2013 £m	Recognised 2012 £m	Unrecognised 2012 £m
Depreciation in advance of capital allowances	**0.6**	–	0.1	–
Other short-term temporary differences	**0.1**	–	0.2	–
Share based payments	**0.5**	–	0.5	–
Tax losses	**–**	**0.1**	–	0.1
Net deferred income tax asset	**1.2**	**0.1**	0.8	0.1

Reconciliation of movement on deferred tax asset:

	2013 £m	2012 £m
At 1 January	**0.8**	1.3
Temporary differences arising in the period	**0.4**	(0.5)
Deferred tax asset at 31 December	**1.2**	0.8

The Company has tax losses in net terms of £0.1 million (2012: £0.1 million) that may be available for use by offset against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the company cannot foresee profitability with sufficient certainty.

5 Creditors

Creditors: amounts falling due within one year	2013 £m	2012 £m
Trade creditors	**1.4**	1.4
Amounts owed to Group undertakings	**86.6**	86.6
Corporation tax	**-**	0.9
Other taxes and social security costs	**0.5**	0.3
Other creditors	**0.5**	0.3
Accruals and deferred income	**6.7**	5.5
	95.7	95.0

Reconciliation of movement on deferred tax liability:

	2013 £m	2012 £m
At 1 January	–	0.1
Temporary differences arising in the period	–	(0.1)
Deferred tax liability at 31 December	–	–

6 Interest bearing loans and borrowings

	2013 £m	2012 £m
Current instalments due on bank loans	20.0	20.0
£20 million variable rate secured term loan	–	20.0
£30 million variable rate secured term loan	20.0	–
	20.0	20.0

The £20 million loan is repayable within three to six months, under a revolving facility that expires on 28 September 2015. The loan bears interest at LIBOR+1.15%.

7 Creditors

Creditors: amounts falling due after more than one year	2013 £m	2012 £m
Amounts owed to Group undertakings	26.1	20.9
Other creditors	0.5	0.1
	26.6	21.0

Amounts owed to Group undertakings comprise intra-group loans which fall due after more than 5 years and bear interest at rates of LIBOR+1.5% to LIBOR+3%.

8 Provisions for liabilities and charges

	2013 £m	2012 £m
Property leases	0.4	0.4
Other	1.8	1.1
	2.2	1.5

Movement in provisions:

	Provision 1 January 2013 £m	Arising during the year £m	Utilised during the year £m	Provision 31 December 2013 £m
Property leases	0.4	–	–	0.4
Other	1.1	1.4	(0.7)	1.8
	1.5	1.4	(0.7)	2.2

Property Leases

The provision for Property Leases is in respect of leasehold premises, from which the Company no longer trades, but is liable to fulfil rent and other property commitments up to the lease expiry dates. Obligations are payable within a range of one to 8 years. Amounts provided are management's best estimate of the likely future cash outflows. The provision has been discounted using market interest rates. The undiscounted provision is £0.4 million (2012: £0.4 million).

Other provisions

Other provisions include a number of employee and legal amounts. Included in the above is a provision for £1.7 million (2012: £1.1 million) for ongoing litigation related to a former Trados shareholder's claim of breach of fiduciary duty by the former Trados Directors on the sale of Trados to SDL in 2005.

9 Share capital

Allotted, called up and fully paid	**2013 millions**	2012 millions	**2013 £m**	2012 £m
Ordinary shares of 1p each				
At 1 January	**80.2**	79.2	**0.8**	0.8
Issued on exercise of share options	–	0.2	–	–
Issued on exercise of LTIPS	–	0.7	–	–
Issued on exercise of SAYE scheme	–	-	–	–
Issued as payment of deferred consideration	**0.2**	0.1	–	–
At 31 December	**80.4**	80.2	**0.8**	0.8

The following movements in the ordinary share capital of the company occurred during the year:

6. 24,000 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (1999), SDL Share Option Scheme (2010) and earlier Unapproved Option Schemes at a price range of 117 pence to 279 pence per share for an aggregate consideration of £45,103.

7. No ordinary shares of 1p each were allotted under the SDL LTIP Scheme.

8. 8,563 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes at a price of 286 pence per share for an aggregate consideration of £24,490.

9. In August 2013 92,861 ordinary shares of 1p each were allotted to six former shareholders of Intrepid Consultants Inc as payment of the contingent consideration due as a result of the acquisition of Intrepid Consultants Inc by the Alterian plc group in 2010.

10. In August 2013 57,120 ordinary shares of 1p each were allotted to four former shareholders of Bemoko Consulting Limited as payment of the contingent consideration due as a result of the acquisition of Bemoko Consulting Limited by the group in 2013.

10 Reconciliation of movements in shareholders funds

	Share Capital £m	Share Premium Account £m	Profit & Loss Account £m	Total £m
At 1 January 2012	0.8	95.9	43.9	140.6
Profit for the period	–	–	8.6	8.6
Dividend paid	–	–	(4.6)	(4.6)
Currency translation differences on net investments	–	–	(0.1)	(0.1)
Deferred income taxation on share based payments	–	–	0.5	0.5
Arising on share issues	–	0.9	-	0.9
Share based payments	–	–	(1.1)	(1.1)
At 1 January 2013	0.8	96.8	47.2	144.8
Loss for the period	–	–	(24.9)	(24.9)
Dividend paid	–	–	(4.9)	(4.9)
Currency translation differences on net investments	–	–	(0.1)	(0.1)
Arising on share issues	–	0.6	–	0.6
Share based payments	–	–	1.2	1.2
At 31 December 2013	**0.8**	**97.4**	**18.5**	**116.7**

All amounts are attributable to equity holders of the parent.

11 Commitments and contingencies

The Company had annual commitments under operating leases as set out below:

Leases expiring:	**Land and Buildings 2013 £m**	**Other £m**	**Total £m**	Land and Buildings 2012 £m	Other £m	Total £m
Within one year	–	–	–	0.1	–	0.1
After one year but not more than five years	–	–	–	–	–	–
More than five years	**1.0**	–	**1.0**	0.9	–	0.9
	1.0	–	**1.0**	1.0	–	1.0

12 Share based payment plans

On 23 April 2010, following shareholder approval, the "SDL Share Option Scheme (2010)" was adopted. This replaced the "SDL Share Option Scheme (1999)" for which options are still exercisable. The SDL Share Option Scheme (2010) permits the granting of both options approved by HM Revenue and Customs within the statutory £30,000 limit and unapproved options, subject to performance conditions. From 2010 onwards, all options have been granted in accordance with these rules.

The SDL Long Term Share Incentive Plan, which was approved by shareholders in April 2006 ("the 2006 plan"), expired for the purposes of new awards in April 2011. No further awards could be made after the expiry date but existing awards will remain protected although they will only vest to the extent that the related performance conditions are met.

The 2006 plan has been replaced with the SDL Long Term Share Incentive Plan (2011) ("the 2011 Plan") which received approval from shareholders in April 2011. The 2011 Plan is broadly similar in construction. It has been updated to reflect current law and market practice and the proposed performance conditions are designed to be more closely aligned to the company's current business strategy and objectives.

On 17 April 2013, 1,137,026 shares were granted under a Retention Share Plan to a small group of senior management excluding Executive Directors. The shares will vest in two equal tranches over a two year period on the anniversary of the grant date, subject to the achievement of specified performance criteria. The Retention Share Plan was not approved by shareholders and therefore any shares that vest will be purchased by the Company via the Employee Benefit Trust. There were no shares purchased in 2013. The Remuneration Committee has the discretion to settle any awards that vest in cash or via shares.

On 17 April 2013, 211,607 shares were granted under the 2011 Plan to the Executive Directors based on a market price of £4.20, with a performance period of three years from date of grant. Senior management employees received awards of 981.923 on 17 April 2013.

On 24 April 2008 a Save As You Earn (SAYE) scheme was formally approved by the shareholders at the AGM. Following the success of the UK and Netherlands SAYE schemes, in 2012 an extension to the international version was rolled out to SDL plc's subsidiary companies in the United States and Canada. The rules are based on those of the UK in that employees must be eligible and there is a monthly savings contract over a 3 year period. In 2013 and 2012 options were granted to UK, Netherlands, Canada and United States scheme participants at 80% of the prevailing market price. The market price is taken the day prior to the date of invitations to apply for an option. There are no performance conditions attached to the exercise of these options. These options may be exercised within a fixed six-month period, three years from the date of grant or being made redundant.

In recognition of the fact that there may be three consecutive years in which the LTIP and Option awards are unlikely to meet the performance criteria required to vest, the Board has approved a share-based discretionary award which has been made to a small targeted group of executives. The Board believes that this Retention Share Plan (RSP) will provide benefit to the Group by creating appropriate performance incentives and facilitating the long-term retention of employees who add significant value.

Shares will be provided by market purchase via the Employee Benefit Trust. The funding of the trust will be by way of a loan to the trustees. Awards are based on a percentage of salary and vest in equal tranches over two years, any unvested portion of the first tranche lapses.

Included within administrative expenses is a charge of £0.4 million (2012: credit of £0.2 million which related to 2010, 2011 and 2012 Long Term Incentive awards and Option Scheme grants which did not, or are not expected to, vest) relating to 2013 Long Term Incentive awards and Option Scheme grants.

SDL Share Option Scheme

The table below sets out the number and weighted average exercise prices (WAEP) of, and movements in, the SDL Share Options Scheme during the year:

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding at the beginning of the year	1,025,737	£3.84	1,156,157	£3.15
Granted during the year	353,331	£4.20	166,545	£7.48
Forfeited during the year	(180,050)	£4.89	(103,459)	£5.45
Exercised during the year	(24,000)	£1.88	(193,506)	£1.99
Outstanding at the end of the year	1,175,018	£3.83	1,025,737	£3.84
Exercisable at 31 December	554,993	£1.95	578,993	£1.95

The weighted average share price at the date of exercise for the options exercised is £3.90 (2012: £6.63).

For the share options outstanding as at 31 December 2013, the weighted average remaining contractual life is 5.76 years (2012: 5.64 years).

The fair value of equity settled share options granted under the SDL Share Option Scheme is estimated as at the date of grant using the Black Scholes model. The following table lists the inputs and key output to the model used in the year of the grant:

	2013	2012
Weighted average share price (pence)	420	748
Weighted average fair value at grant date (pence)	67	144
Expected volatility	30%	30%
Expected option life	3 years	4 years
Expected dividends	2%	1%
Risk-free interest rate	0.3%	0.5%

The range of exercise prices for options outstanding at the end of the year was 1.17-£7.48 (2012: £1.17-£7.48).

	Date of Grant	Exercise Period	2013 Number	2012 Number
£1.01 - £1.50	02/04/04-04/04/05	10 years after grant date	291,618	305,118
£2.01 - £2.50	22/03/06-03/10/06	10 years after grant date	23,700	23,700
£2.51 - £3.00	28/02/08-02/03/09	10 years after grant date	234,475	244,975
£3.51 - £4.00	23/5/07	10 years after grant date	5,200	5,200
£4.01 - £4.50	17/04/13	10 years after grant date	336,899	–
£4.51 - £5.00	12/04/10	10 years after grant date	–	119,115
£5.01 - £5.50	10/09/10	10 years after grant date	–	29,070
£6.51 - £7.00	18/05/11	10 years after grant date	146,331	151,296
£7.01 - £7.50	10/04/12	10 years after grant date	136,795	147,263
Total			1,175,018	1,025,737

SDL Long Term Incentive Plan

The fair value of equity-settled shares granted under the SDL Long Term Incentive Plan is estimated as at the date of grant using a Monte-Carlo model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs and key output to the model used in the year of grant:

	2013	2012
Expected volatility	31%	30%
Weighted average fair value at grant date (pence)	102	467
Expected life	3 years	3 years
Expected dividends	2%	1%
Risk-free interest rate	0.3%	0.5%

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding at the beginning of the year	**1,710,108**	**£0.01**	2,304,736	£0.01
Granted during the year	**1,193,530**	**£0.01**	667,356	£0.01
Exercised during the year	–	–	(711,918)	£0.01
Forfeited during the year	**(989,800)**	**£0.01**	(550,066)	£0.01
Outstanding at the end of the year	**1,913,838**	**£0.01**	1,710,108	£0.01
Exercisable at 31 December	**Nil**	–	Nil	–

All LTIPs are exercisable at nil cost to the individual (with the exception of the 1p nominal value of each share awarded).

Retention Share Plan

The fair value of equity-settled shares granted under the SDL Retention Share Plan is estimated as at the date of grant using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs and key output to the model used in the year of grant:

	2013
Expected volatility	**30.2%**
Weighted average fair value at grant date (pence)	**392**
Expected life	**1.5 years**
Expected dividends	**1.5%**
Risk-free interest rate	**0.18%**

	2013 No.
Outstanding at the beginning of the year	–
Granted during the year	**1,137,026**
Forfeited during the year	**(458,830)**
Outstanding at the end of the year	**678,196**
Exercisable at 31 December	**Nil**

All RSPs are exercisable at nil cost to the individual (with the exception of the 1p nominal value of each share awarded).

SDL Save As You Earn Scheme

The table below sets out the number and movements in, the SDL Save As You Earn Scheme during the year:

	2013 No.	2012 No.
Outstanding at the beginning of the year	**296,407**	149,567
Granted during the year	**323,215**	214,131
Exercised during the year	**(8,563)**	(31,861)
Forfeited during the year	**(219,612)**	(35,430)
Outstanding at the end of the year	**391,447**	296,407
Exercisable at 31 December	**Nil**	Nil

For the SAYE shares outstanding as at 31 December 2013, the weighted average remaining contractual life is 1.82 years (2012: 1.86 years).

The fair value of equity settled share options granted under the SDL SAYE Scheme is estimated as at the date of grant using the Black Scholes model. The following table lists the inputs and key output to the model in the year of grant:

	2013	2012
Weighted average share price (pence)	**324**	599
Expected volatility	**36%**	29%
Expected option life	**1.4 years**	3.5 years
Expected dividends	**1.5%**	1%
Risk-free interest rate	**0.5%**	0.2%

For all Share Based payment models, the volatility is calculated from compounded daily logs of normal returns of the company share price over a historic period commensurate with the expected life of the incentive.

13 Profit attributable to members of the parent company

The loss dealt with in the financial statements of the parent Company is £24.9 million (2012: profit of £8.6 million). No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006.

14 Post balance sheet events

There are no known events occurring after the statement of financial position date that require disclosure.

Five year group summary

Year Ended 31 December:	**IFRS 2013 £m**	IFRS 2012 £m	IFRS 2011 £m	IFRS 2010 £m	IFRS 2009 £m
Turnover (notes 1, 2, 3, 4 and 5)	**266.1**	269.3	229.0	203.5	171.9
Growth in turnover	**-1%**	18%	13%	18%	8%
Operating profit before one-offs, depreciation and amortisation	**13.3**	**41.0**	**42.5**	**37.7**	**31.4**
Operating (loss) / profit	**(24.0)**	27.7	33.5	28.6	23.6
(Loss)/profit before tax	**(24.4)**	27.4	33.8	28.8	24.0
(Loss)/profit after tax	**(27.9)**	20.9	25.7	22.0	18.0
Fixed assets	**218.6**	243.3	161.6	165.6	142.6
Cash and cash equivalents	**18.2**	28.5	70.4	46.6	46.2
Net current assets / (liabilities)	**(17.9)**	(10.3)	58.9	32.6	33.2
Total assets less current liabilities	**206.0**	239.0	226.3	205.5	182.3
Equity interests	**196.5**	227.8	217.8	195.5	173.1
Average number of employees (thousand)	**3.2**	2.8	2.3	2.1	2.0
Earnings per share – basic (adjusted for movements in capital) (notes 1, 2, 3, 4 and 5)	**-34.78p**	26.12	32.72p	28.39p	23.55p
Adjusted earnings per share – basic (before one-offs and amortisation)	**2.57p**	35.41p	38.23p	34.70p	29.05p

Notes:
(1) 2009 – Acquisition of XyEnterprise Inc and Fredhopper Group BV
(2) 2010 – Acquisition of Xopus BV and Language Weaver Inc
(3) 2011 – Acquisition of Calamares Holding BV Group
(4) 2012 – Acquisition of Alterian plc Group
(5) 2013 – Acquisition of Bemoko Consulting Limited

Company Information

Directors

David Clayton	(Chairman)
Mark Lancaster	(Chief Executive Officer)
Dominic Lavelle	(Chief Financial Officer)
Chris Batterham	
Joe Campell	
Mandy Gradden	
Alan McWalter	

Secretary

Pamela Pickering

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SDL has over 1,500 enterprise customers, over 400 partners and a global infrastructure of 70 offices in 38 countries. We also work with 72 of the top 100 global brands.

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