SDL

Annual Report 2014

www.sdl.com

Annual Report 2014

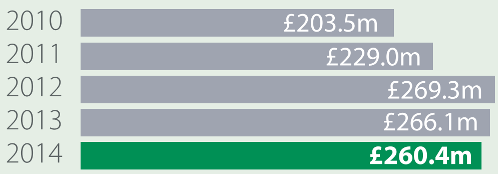
Contents

Strategic Report

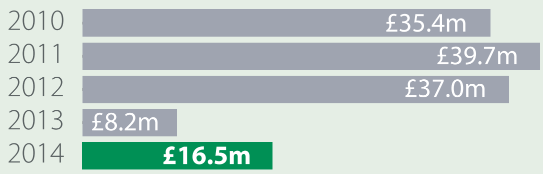
The directors present an overview of SDL PLC's structure, 2014 performance, strategic objectives and plans.

Financial Highlights

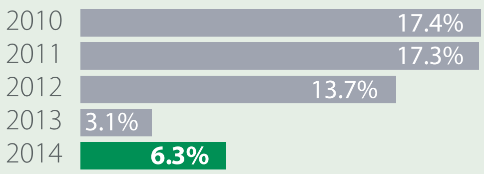
Revenue



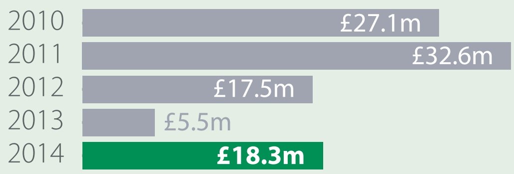
Profit Before Tax, Amortisation and One-off Costs



Operating Margins Before Amortisation and One-off Costs



Operating Cash Flow



Operational Performance

Strategic Performance Indicator	Measure	Measure
Revenue	Change % (constant currency)	+3%
Profit before tax, amortisation and one-off costs	Change % (constant currency)	+103%
Net cash flows from operating activities	Change %	+233%
Technology revenues	% of group total	44% (2013: 44%)
Innovation	Number of product releases	57 with SaaS products moving to continuous release model (2013: 75)

What We Do

Digital Experience: SDL enhanced its capabilities for an all-in-one digital experience to further help brands engage their customers through contextually relevant experiences. This includes a set of digital experience accelerators that allow the creation of rich web and optimised ecommerce experiences. Combined with new capabilities that allow marketers to test and measure how campaigns or personalised offers perform. Leveraging SDL's Digital Experience capabilities, organisations including Virgin Money, KONE, Halfords, Mandarin Oriental and Kaeser Kompressoren are now providing paramount customer experiences to brands.

Knowledge Centre: SDL goes beyond the marketing funnel providing organisations Knowledge Centre allows for the creation of dynamic product knowledge views that offer a superior experience for documentation and self-service support scenarios by providing the same brand richness as done for marketing experiences. Organisations like NetApp, Life Technologies and OSIsoft are using SDL's Knowledge Centre capabilities to drive superior customer experiences.

Customer Analytics: With its customer analytics technology, a single view of the customer that aggregates all customer data including profile, situational data, transactional data, and third-party data that's available within the enterprise to drive a segment of one experience which enables real-time analysis of the customer experience. SDL Customer Journey Analytics has the ability to track brand health looking at customer perception versus that of competitors. SDL's Customer Analytics capabilities make it possible for Rebel, Envirofone and totesport to provide seamless customer experiences to brands.

Language: SDL provides global brands the ability to effectively communicate across regions and languages ensuring organisations are communicating in the language of the customer, a critical requirement from a customer experience standpoint. New language enhancements include SDL's Targeted Industry Language Platforms for Travel & Hospitality, Life Sciences, Financial Services and Digital Marketing; organisations can now cater to the terminology and language nuances required for these targeted industries. With SDL's Language capabilities GTA and KONE are overcoming challenges to achieve customer experience success.

Chairman's Statement


David Clayton
Chairman

Summary:

- Solid progress – adjusted* earnings per share of 15.10 pence (2013: 2.57 pence); (*before amortisation and one-off costs).
- Dividend reinstated – 2.5 pence per share to be paid
- Board development effectively managed

SDL has made good progress in 2014 and has benefitted from our restructuring and commitment to long term investment in enterprise level sales and marketing. As a result, we have seen our adjusted earnings per share increase from 2.57 pence to 15.10 pence.

SDL continues to address the rapidly evolving market conditions well. These market conditions have provided an opportunity for the Board to review group strategy and think more broadly about how best to harness our competitive positioning, assets and expertise.

Under Mark's leadership, the executive team has continued to make progress in 2014 to complete the operational restructure of the business to align with the significant market opportunity whilst laying the foundations for sustainable future growth.

I am pleased to lead a talented Board with the combination of expertise and experience to drive the Group forward. Whilst we have a clear strategic path, as Chairman I am responsible for continually developing and evolving the Board to make it relevant and appropriately experienced in the light of both our short-term and longer-term business strategy. To that end we were delighted to welcome Alan McWalter and Glenn Collinson as non-executive directors during 2014. They have extensive and highly relevant experience and bring a fresh and new perspective to the Board and its Committees.

Alan McWalter joined SDL as the Senior Independent Director on 1 March 2014. He sits on the Audit and Remuneration Committees and is Chairman of the Nomination Committee. Glenn Collinson joined SDL as a Non-executive Director and Chairman of the Remuneration Committee on 1 June 2014. He also sits on the Audit and Nomination Committees. We are already benefiting from their knowledge and experience and we look forward to their contributions to the next stage in the development of the Group.

It is SDL's people, who, more than any other factor, make the company special; supporting their development is one of the key investments we can make in the future of the business. Talent identification and development has been a key priority of our human resources strategy. Work is underway to help the development of our people with increased emphasis on growth areas of our business. Consistent with our stated policy to progress dividends to shareholders in line with our earnings, the Board is recommending a final dividend to the Annual General Meeting of 2.5 pence per share.

Overall 2014 has seen good progress in SDL's return to profitable growth. On behalf of our stakeholders I would like to thank all our people for their commitment, passion and hard work.

SDL has continued to make good progress in building a sustainable business that delivers value to its shareholders. The long term external market drivers are firmly in place and the Board is confident that these, together with our robust strategy, should support the continued growth of SDL over the years ahead.

David Clayton
Chairman

CEO's Review

2014 has been a year of very significant progress for SDL. Back in January 2013, we began a programme of significant investment and operational realignment to better position the company to address its market opportunities. As at the end of 2014 we have seen not just seen significant recovery, but excellent new bookings growth in our technology business and solid contribution in our language services business, enhancing the margins of both businesses and delivering good cash conversion for the Group at this relatively early point in the turnaround of the financial performance of the Group.

Revenues were £260.4 million up 3% at constant currency (2013: £266.1 million at reported currency). Profit before taxation and amortisation of intangible assets ("PBTA") was £16.5 million (2013: £8.2 million). During the year, net cash in the business increased by £14.9 million. Net cash at the end of the year was £13.1 million (2013: net debt of £1.8 million).

Technology segment new license bookings had a year of excellent growth, up 14% at constant currency. This segment delivered gross margins of 71.0% (2013: 71.4%) and PBTA margins of -8.6% (2013: -14.0%) at constant currency.

Language Services continues to deliver revenue growth and increased margins with significant progress in gross and operating margins. This segment delivered gross margins of 45.5% (2013: 42.4%) and PBTA of 17.9% (2013: 16.3%) at constant currency.

We have spent the last two years creating the right structure, systems and processes to enable SDL to deliver in the new digital world. This involved tremendous upheaval and disruption essential to achieve our long term goal of exceeding the levels of growth and profitability we achieved in the prior 10 years. There is still investment to do and we will continue to make these investments to deliver long-term growth and profit.

During the year we continued to measure the progress of the business against certain management Key Performance Indicators:

Summary KPIs

	2014
Total Technology bookings*	+14%
New logo software bookings*	+35%
Annual Recurring Revenue*	+14%
Net cash	£13.1m
Language Services gross margin*	45.5%
Language Services operating margin*	17.9%

* at constant currency

Our transformation programme has set the foundations and structure to enable us to embrace the market opportunity and

Mark Lancaster
CEO

deliver solutions for Customer Experience Management. We have converged our Technology portfolio under the Customer Experience Cloud (CXC) umbrella and brought customer care across Technology and our Language Services business closer together so that we provide the very best service possible. Our customers and the market have reacted very positively to these changes and we have some impressive brand names taking multiple CXC solutions such as House of Fraser, Schneider Electric, TomTom, Philips Healthcare and Akamai Technologies.

We now have a solid foundation with best of breed integrated technology and, we have recruited the best and the brightest talent across sales, pre-sales and account management to ensure we execute against our goals and provide the impetus for our future success. We also have a cohesive partner ecosystem around us, which is key to our success.

Market and Strategy

The explosion of digital content and channels, and the way people gain knowledge and make decisions is forcing companies to change significantly and language is increasingly being recognised as a critical strategic component of Customer Experience.

Organisations are faced with the increased challenge of meeting growing consumer expectations and delivering a superior experience. SDL CXC significantly enhances marketers' ability to meet their customers' needs and deliver a product and brand experience that resonates with them. Marketers are provided with all the information required on who to target and how to personalise the experience for the customer, while ensuring the delivery of relevant and timely information to the right device, in the customers' own language, faster than any other vendor today.

We released Customer Experience Cloud 2.0 that focuses on four key pillars: Digital Experience, Knowledge Centre, Customer Analytics and Language which together meet the needs of today's global organisations. With these enhanced capabilities, organisations can gain more insight into customer behaviour and preferences to guide customer experience strategies, act on opportunities in real time and deliver relevant experiences in the language of the customer. This release has major improvements from our 1.0 release in integrated user experience, cloud capabilities, Customer Journey Analytics and ecommerce.

Innovation – the future

In the next five years, as the internet babies become the mainstream, all businesses will need to deliver personalised experiences to global markets. Our research and development programmes are delivering and will continue to deliver technology and services that enhance real-time business decisions by making sense of Big Data (social and structured), that covers their customers' journeys from product research, purchase and post-purchase customer service, all on an advanced Cloud-based platform. So, our future is: real time decisioning; Language Cloud technology; post purchase CX; and moving all our technology to SaaS - self-service, self-starter.

Outlook

We expect the digital Customer Experience Management market to continue to evolve rapidly over the next three years, as consumers demand better customer engagement across a broad spectrum of online devices and increasingly smartphones. SDL's investments into the technologies that will ultimately deliver a platform comprising web, social, big data analytics, ecommerce optimisation and language position the company well to be a leader in this market. We expect this new Customer Experience market to grow by more than 15% per year as we move into 2016.

The operational transformation is progressing well. Whilst there is ongoing investment, we believe that we are now well positioned to deliver differentiated solutions globally to our large customer base within this competitive market.

We enter a new year with a solid pipeline of opportunities and are well placed for accelerating revenue growth. I am more confident than I have ever been in the products and services we offer and the structure, process and people we have at SDL.

Financial Review

Summary Performance

Revenues for 2014 were £260.4 million (2013: £266.1 million). Profit before taxation, amortisation of intangible assets and one off costs ("PBTA") was £16.5 million (2013: £8.2 million). Gross cash in the business at year-end was £22.1 million (2013: £18.2 million) and net cash after borrowings was £13.1 million (2013: net debt £1.8 million).

Organic growth of 3% was offset by adverse foreign currency effects of 5%. Headline revenue decreased by 2%. Language Services and Technology segments have grown by 2% and 3% respectively on a constant currency basis. Geographically, Europe increased by 10%, the decline in Asia was 4% and North America was 7% on a constant currency basis.

Cash generated from operations was £22.2 million (2013: £15.8 million). Cash generation in the year has been impacted by cash outflows associated with the prior year restructuring programme and the cash settlement of retention share plans. Capital expenditure was reduced to £2.4 million following the prior year investment in SaaS Cloud infrastructure (2013: £6.1 million). Tax paid was £3.9 million (2013: £10.3 million).

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. Customer concentration is in line with prior year with the 20 largest customers contributing 26% (2013: 25%) of revenue in 2014. No single customer contributes more than 4% of group revenues.

Performance by Segment

Following the 2013 reorganisation, the Group has revisited its cost allocation methodologies during the year to better represent how shared costs and services are consumed by each segment. In accordance with IFRS 8, the operating segments for the comparative period have been restated.

Again, following the 2013 reorganisation, the Group now has two reportable segments:

Language Services (contributing £146.8 million or 56% of total revenue and £26.3 million of PBTA) (2013: contributing £150.5 million or 56% of total revenue and £24.6 million of PBTA).

Segment revenue reduced by 2% in the year, comprising an underlying increase of 2% at constant currency and a 4% adverse foreign exchange impact. Revenue growth has been strongest in Europe which grew at 5% on a constant currency basis.

The strong second half margin performance seen in 2013 continued into 2014. Gross margins have recovered to 45.5% as the benefits of operational initiatives including expanded use of automated translation technology, new workflow efficiency tooling and use of low cost production centres have been realised.

Segment PBTA margin increased to 17.9% (2013: 16.3%) on a constant currency basis.

New client wins include Rentokil, Intel and China Southern Airlines.

Technology (contributing £113.6 million or 44% of revenue and losses of £9.8 million PBTA) (2013: contributing £115.6 million or 44% of revenue and losses of £16.4 million PBTA).

Segment revenue reduced by 2% in the period, comprising an underlying increase of 3% at constant currency offset by a 5% foreign currency impact.

The Group has maintained investment in its sales, marketing and operations teams in the period. Several key commercial measures have improved demonstrating sales momentum and improved revenue visibility of the business for the future:

Fig 1 Operating Cash Flow

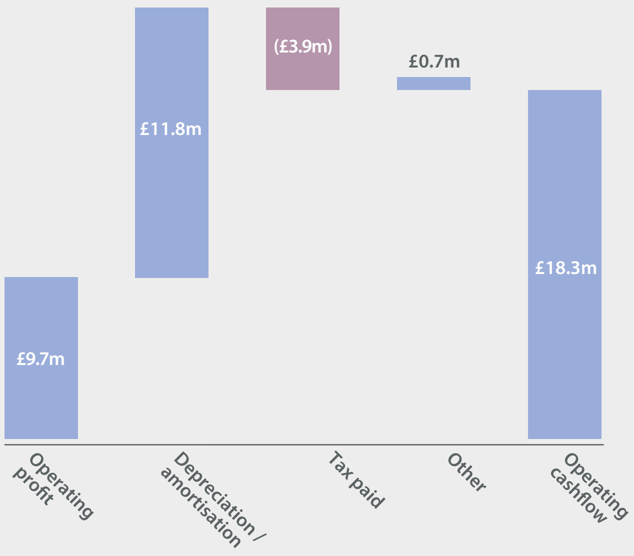
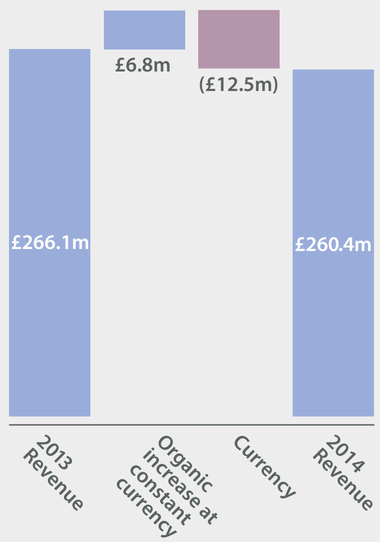


Fig 2 Revenue



- Bookings were £99.3 million for the year, an improvement of 14% on the prior year (£87.0 million) at constant currency;
- At the end of the year, Annual Recurring Revenue (ARR) from SaaS and perpetual licence support and maintenance contracts was £71.0m, up 14% (2013: £62.5 million) at constant currency.

New client wins include ASOS, Bose, Specsavers, Lloyd's Register and Miami Heat.

Gross Margin

The Group's gross margin was 57%, an increase from 55% in 2013.

Administrative Expenses

Administrative costs excluding intangibles amortisation and one-off costs reduced in 2014 to £130.7 million (2013: £137.4 million).

Research and development costs of £28.1 million (2013: £28.8 million) are included in administrative expenses. During the year, the Group issued 57 product releases with greater functionality being deployed. We have adopted a continuous release programme for our SaaS products which improves our customers' experience by delivering releases quicker and more effectively than in prior years.

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 3,349 at the end of 2014, compared to 3,205 at the end of 2013. Employee related costs remain the most significant component of Group costs, amounting to 66% of Group overheads (2013: 67%) excluding amortisation of intangibles.

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 2014 was £7.1 million (2013: £7.5 million).

Intangible assets and goodwill were allocated to two Cash Generating Units ("CGU") namely Language Services and Technology. The 2014 impairment review resulted in no impairment (2013: impairment of £20.4 million in the Content and Analytic Technologies segment).

Earnings Per Share

Basic earnings per share when adjusted for one off costs and amortisation of intangibles ("adjusted EPS") increased by 488% to 15.1 pence. Basic earnings per share was 8.03 pence (2013: loss, 34.78 pence).

Financing Costs

Interest costs in 2014 were £0.4 million (2013: £0.5 million). At the start of the year, drawn borrowings were £20.0 million. During 2014, we repaid £11.0 million and drawn borrowings were £9.0 million at the end of the year.

Net cash was strengthened to £13.1 million at year end (2013: net debt of £1.8 million).

Cash flow

The Group generated £22.2 million from operations during the year (2013: £15.8 million). This cash inflow was net of £3.0 million of exceptional cash outflows arising from the 2013 Group restructuring, increased deferred income balances and accruals, and £0.6 million to fund the cash settlement of retention share plans. Pre-tax cash conversion, measured after capital expenditure, rose to 93% from 72% in the prior year.

Surplus cash generated, after deducting net income tax paid of £3.9 million (2013: £10.3 million) and investing activities of £2.6 million (2013: £7.1 million) and funding activities, has been used to repay most of the Group's bank borrowings. £11 million was repaid in 2014 and further £6 million in January 2015.

Borrowing Facilities

The group's current borrowing facility is a revolving credit facility of £30 million expiring in September 2015. £9.0 million of this facility was drawn at the year-end and has been substantially repaid in early 2015.

Pricing of this £30 million borrowing facility is between 1.3% and 1.9% above LIBOR dependent upon the ratio of the Group's gross borrowings to its earnings before interest, tax, depreciation and amortisation. 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

Strategic Report

Fig 3 Analysis of Revenue by Segment

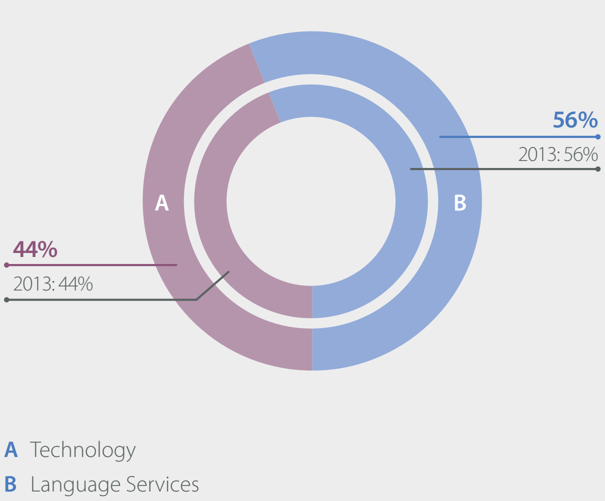
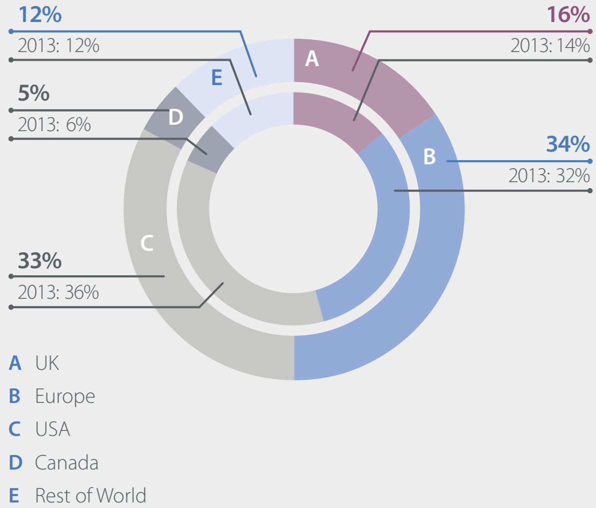


Fig 4 Geographic Split of Sales by Destination



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 receivables and trade payables arising directly from its operations. The Group's policy is 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 operating profits earned together with management judgement of the extent to which the Group's tax losses are likely to be utilised with reasonable certainty. A detailed analysis of the taxation charge is included in note 4 to the accounts.

The tax charge for the year is £2.8 million (2013: £3.5 million). This charge includes an increased recognition of deferred tax assets.

Trados Litigation update

As reported previously, the group has ongoing litigation related to the Trados acquisition.

The Group has taken part in a mediation process during the year and a settlement in principle has been agreed subject to legal completion and Court ratification.

DIvidend

A final dividend for the year ended 31 December 2014 of 2.5 pence per share will be proposed at the Annual General Meeting.

Fig 5 Operating Margins before amortisation and one-off costs

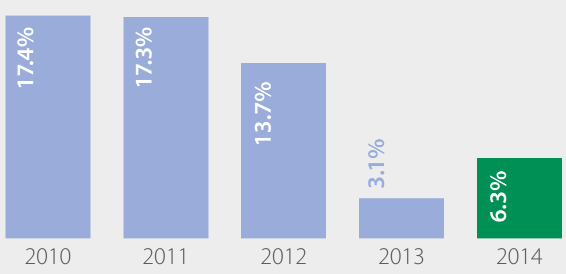
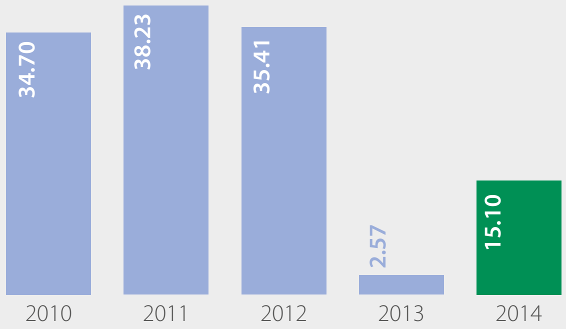


Fig 6 Development in Fully Adjusted EPS Year on Year (pence per share)



Case Studies

Schneider Electric provides Personalized Customer Experiences with SDL Customer Experience Cloud

Schneider Electric, a global specialist in energy management, selected SDL's Customer Experience Cloud to personalize its communications with customers across the globe.

Schneider Electric is committed to providing a single, unified organization across its operations in more than 100 countries. However, with continued growth and numerous business units, the company was experiencing fragmented messaging that was difficult to personalize for each individual customer. To overcome this customer experience challenge, Schneider Electric turned to SDL to provide a unique and meaningful web solution to its target audiences, drive contextual customer engagement and enable self-service and troubleshooting to enhance the overall customer experience.

"Our customers are our number one priority at Schneider Electric, and to ensure they remain top of mind, we created a Digital Customer Experience division," said Chris Leong, EVP, Digital Customer Experience at Schneider Electric. "We are passionate about continuously evolving our web experience to our customers and are pleased to work with SDL on a global, cross-channel content management strategy to help transform our website into a simplified, targeted, relevant and engaging experience."

SDL's Customer Experience Cloud allows Schneider Electric to execute on its customer strategy objectives, which include improving customer experience, agility and efficiency to help grow the business. A component of SDL's Customer Experience Cloud, Schneider Electric utilized SDL WorldServer, which simplifies and accelerates localization processes for any content, enabling organizations to centrally manage, automate and control high volumes of translation projects. Schneider also implemented SDL Tridion Web Content Management (WCM), allowing control of the entire digital ecosystem from one place with SDL SmartTarget personalization and content targeting.

"At SDL, we understand what is needed for a personalized, multi-channel customer strategy and we are committed to helping our customers provide those seamless experiences by aligning the right technical strategy and solutions to overall organizational goals," said Dennis van der Veeke, CTO at SDL. "No matter where or how customers interact with a company, it is critical that each experience is relevant for that individual customer and the context of their interactions. We are pleased to help Schneider Electric engage with its customers throughout their journeys, allowing them to take customer relationships to the next level by delivering individualized, contextually relevant experiences."

House of Fraser

House of Fraser is the leading national premium department store group in the UK and Ireland. They selected SDL Customer Experience Cloud (CXC), SDL SmartTarget and SDL translation services to support its multichannel customer engagement and international expansion strategies. SDL will deliver customer targeting, profiling and personalisation in addition to website translation services to ensure House of Fraser's ecommerce customers receive consistent, high quality, localised content to significantly improve the customer experience across any channel and device.

With a history dating back more than a century, House of Fraser is a true household name in the retail industry and this partnership shows how brands of such stature can effectively adapt to digital trends. Our integrated suite of solutions will help House of Fraser better understand its customers' needs for increased engagement online, providing the customised shopping experience so many digitally savvy shoppers now crave.

PHILIPS

Philips Healthcare felt the SDL testing center was the perfect choice for localizing and verifying its newest device.

Philips Healthcare was preparing to launch its newest advanced defibrillator/ monitor, and wanted to ensure a high-quality user experience for its non-English speaking as well as English speaking customers. Key to this was accurately localizing the software; the voice prompts and remaining user interface for markets around the world. Philips Healthcare is a long-standing user of SDL software localization solutions but for this project, the company wanted to take a new approach to ensure efficient, cost-effective localization while satisfying stringent regulatory requirements.

Working through the SDL testing center in Colorado, this global leader was able to translate its new device into 21 languages in record time while still meeting the highest levels of quality.

Philips Healthcare felt the SDL testing center was the perfect choice for localizing and verifying its newest device. Already using SDL Passolo and SDL Translation Management System (TMS), the company appreciated being able to seamlessly work these solutions into the process.

Key benefits received:

- Saved over 50% in project costs
- 40% reduction in overall project time
- Maintained high quality of translations
- Easily pinpointed translation consistency issues
- Centralized the testing process in a controlled environment
- Less involvement required by Philips Healthcare employees

Over the years, Philips Healthcare has used a range of SDL solutions and services for software & voice verification and translation. As Tim Paiva, Senior Learning Products Developer, Emergency Care Solutions, for Philips Healthcare explains, "We work with SDL because of its translation expertise including in-country contacts, infrastructure to support localization, know-how working with multiple companies and best practices when it comes to language technologies." "With SDL, we have a process that yields high quality translation possible in a cost-effective and streamlined way,".

Rentokil Initial

Using SDL Language Solutions, Rentokil centralized the translation procurement and management process

Rentokil Initial is a large business services company, with annual revenues of over £2 billion, providing pest control, hygiene, work wear, landscaping and medical products and services to corporations in over 60 countries.

After years of struggling to find a quick and affordable way to standardize its global translation process, Rentokil Initial sought professional advice from SDL. The global brand found that an ad hoc, decentralized approach to content localization was costing far more money and time than it should and was impacting customer experience.

According to Richard Gregory, Head of U+ at Rentokil Initial "Because we were paying huge sums for translations globally, our main goal was to provide a better way of communicating with our global customers and better leverage existing translations. We needed a simple, straightforward way to get on top of the translation process and use it as an enabler of international business expansion."

SDL WorldServer was chosen to manage, automate and control the company's high volume of translation projects to ensure on time and on budget performance. SDL BeGlobal was also chosen to take advantage of content where fast, quality machine translations would suffice.

Using SDL Language Solutions, Rentokil centralized the translation procurement and management process and in a short space of time, began to receive global savings of up to 35%.

In the first six months using SDL Language Solutions, Rentokil Initial translated over a million words and built up a comprehensive reusable translation database of words, phrases and messages in multiple languages, yielding significant cost savings. Additionally the company has been enabled to translate more content more quickly for both internal and external customers and this in turn has helped Rentokil Initial to provide a far better user experience.

Risk Management

Principal Risks and Management Control

During the year under review, the Board of SDL PLC had overall responsibility for establishing and maintaining an adequate system of internal controls within the group and they participated in the review of internal controls over financial reporting and the preparation of The Annual Report.

The effectiveness of the system within SDL PLC was kept under review through the work of the Audit Committee. The system of internal control is designed to manage rather than eliminate risk. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss. The key risks and uncertainties shown below are those the Board considers to be of greatest significance to the current SDL Group. They have the potential to materially affect the business and the delivery of its strategy. For each risk there is a probability of its occurrence and the potential financial and reputational impact.

The risk management framework and internal control system is subject to continuous review and development. The company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity and to the communication of ethical values and control consciousness to managers and employees.

HR policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity among staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability, having regard to acceptable levels of risk.

The Company's expectations in this regard are set out in our Code of Conduct, a policy document which has been distributed to all employees of the company.

SDL has fraud and anti-bribery policies and procedures in place to ensure that all incidences of fraud and bribery are appropriately investigated and reported, if appropriate via the Whistleblower Policy. This policy, which is applicable to employees of the company, covers the reporting and investigation of suspected fraud, bribery, and misappropriation, questionable accounting, financial reporting or auditing matters, breaches of internal financial control procedures, and serious breaches of behaviour and ethical principles.

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

Framework

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		

Management of risk at SDL

Throughout the year the Board, via the Audit and Executive Committees, reviews and evaluates the major risks faced by the Group and the controls and mitigation plans in place. As part of this process, the most significant risks are documented on a Risk Register. It is this Risk Register which is reviewed by the Board.

The Audit Committee:

- reviews aspects of the risk management and control system at its meetings and at least once a year reviews the systems' effectiveness on behalf of the Board.
- receives presentations on specific key risks, reports from all internal audits and external audit reports from KPMG.

The Executive Committee, consisting of the executive directors and other senior managers 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.

Other internal controls include:

Annual budgets and 3-year financial plans are submitted to the Board for approval.

Monthly management accounts showing performance against budget, forecast and prior year are distributed to the Board.

Comprehensive worldwide insurances are in place and the cover appropriate to the Group regularly reviewed.

Regular summaries of litigation including progress and potential outcome are reported to the Board.

Credit control – significant credit risks are reviewed by Group Finance and, where appropriate, risk limitation action taken.

A Code of Conduct policy outlining SDL's commitment to high ethical standards which encompasses anti-bribery and corruption is embedded into employee induction and training processes.

Group policies and procedures covering a range of matters, including whistleblowing, are available to staff on the intranet.

Business continuity and disaster recovery plans are in place to minimise the risk of business interruption and contract performance in the event of an incident and how the Group expects to return to 'business as usual' in the quickest possible time afterwards.

Principal risks

The nature of SDL's business and the continually changing environment in which the Group operates means that the list cannot be exhaustive. SDL faces risks and uncertainties which affect all businesses and are not specific to SDL's market. These non-specific risks are not listed as key risks but SDL, along with other businesses, faces these too.

Strategic risks

Description	Risk	Mitigation	2014/2015 Activity
Market Trends – economic and financial.	Failure to forecast market cycles or changes when developing new technology will impact operations.	The Group implements structural reforms to respond to respond to forecasted market changes.	Strategic opportunities are regularly reviewed by the Board.
Customers – changes in their technology investment trends/long-term relationships.	Shifting market trends impacts on customers' IT investments.	The Group invests in research and development and has well integrated and planned innovation roadmaps and stringent delivery checkpoints.	Product development needs identified via customer input and external research. SaaS products moving to a continuous release model in 2014. The Group invested £28.1 million in R&D in the year (2013: £28.8 million).
Competitors – price / technology /intellectual property.	Intense competition and fast paced technological innovation may cause prices for products and services to decline.	Customer sales cycles are reviewed regularly to monitor and maximize customer revenue opportunities. Anticipating price pressure on services and costs of cloud computing. We pursue a variety of measures to reduce costs and expand sales derived from an awareness of customers' needs.	In 2014 we hired an additional 81 sales and presales employees to enhance our sales capability. We have introduced an internal sales certification programme, to improve the level of expertise across our sales force.
Partners – procurement and licensing.	SDL aims to be a valued and trusted business partner and provide products and solutions across the IT lifecycle. Failure to renew contracts or maintain trusted relationships could affect sales and profitability.	A variety of measures have been taken to strengthen the resiliency of the supply chain including multiple long-term supplier and partner contracts and regular reviews of master service agreements.	Global Procurement function works with key business stakeholders to control costs.

Operational Risks

Description	Risk	Mitigation	2014/2015 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.	HR team in place with global reach. Attrition rates in key areas reviewed and actions to address in place. International industry-recognised profiling tools to hire against required competencies. Talent review and succession management process rolled out in 2015.
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 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.	Successful implementation of a scalable highly available email system with built-in business continuity; and highly available internet connectivity with levels of resilient connectivity in 2014. Focus now on transitioning critical business systems for finance, operations and development from local SDL facilities to highly secure datacentres with improved resiliency, high availability and built-in disaster recovery and failover.

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 • Adopts an overarching management process to ensure that the information security controls continue to meet the business' information security needs on an ongoing basis; and • Ongoing monitoring of availability and security incidents.	SDL maintained its certification to ISO/IEC 27001 for the UK and is, in 2015, transitioning to ISO/IEC 27001:2013. SDL continues to expand the scope of 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 2014.
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.	Regular reporting to the Board on litigation risks.

Financial risks

Description	Risk	Mitigation	2014/2015 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	Principal risk is exposure to RBS.	Multi-currency deposits held in a range of financial institutions. Credit ratings of the Group's financial counterparties reviewed periodically.	Facility agreement amended in 2014. Continuing regular and appropriate dialogue has taken place with financial counterparties.
Interest Rate Risk	Profit and cash flow effects of increased interest rates on group borrowing facilities.	Ongoing assessment of debt requirement to manage exposure.	The Group's borrowings have been substantially repaid. Revolving loan facility with RBS in place – see above. Regular worldwide cash balance reviews.
Financial Reporting System	Inadequate systems and processes 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. Monthly systems and roadmap meetings ensure systems developments are prioritised and monitored.	Further developments of the financial reporting system and enhancements to our sales/ bookings tool are planned in 2015.

People

As a business we promise a superior customer experience to our customers and firmly believe it is equally important to deliver this promise internally. We are doing this by developing a high quality 'Employee Experience' and a working environment which is not only productive and rewarding, but also enjoyable. A fantastic employee experience delivers highly engaged and motivated employees which in turn deliver superior customer experience.

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 2014, SDL rolled out company-wide global business applications and invested in key areas of the business which underpin SDL's commitment to building organisational 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 2014. 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.

Employment Policies

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 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.

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.

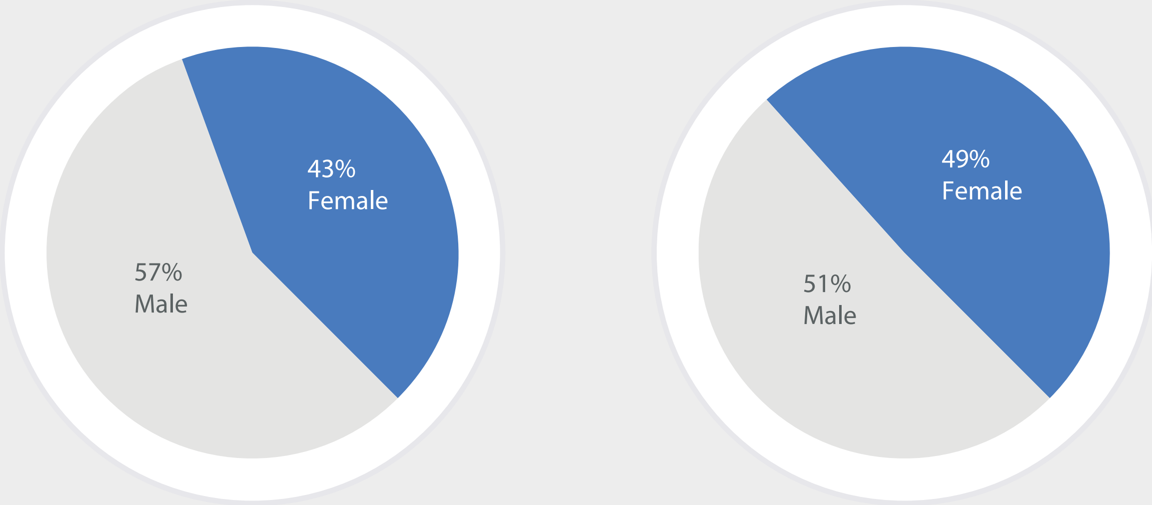
SDL is also committed to helping employees perform at their best and achieve their full potential through ongoing training and personal development plans linked to the SDL Performance Management System.

- 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 2014, which is effective in transferring best practice and sustaining culture;
- The Management Development Training Programme was extended in 2014. Overall, a total of 114 Managers from 9 locations worldwide have taken part during the last 12 months. This programme has now helped almost 500 members of SDL's senior team to develop their Management and Leadership competence and is set to continue during 2015;
- 2013 saw the rollout of SDL's Pathways Project Management programme which is based on the Project management Body of Knowledge (PMBOK) and is fully ISO & REP Certificated. In 2014 177 Project Managers attended the Foundation programme in 10 locations and 77 Project Managers attended the Intermediate programme in 8 locations.

In January 2014, SDL Quality & Infrastructure group was formally recognised by the Project Management Institute (PMI®), the world's largest project management member association, as a provider of project management training known as a Registered Education Provider (R.E.P.). As such SDL joins more than 1,500 R.E.P.s in more than 80 countries. Recognition as an R.E.P. demonstrates that Project Management training provision at SDL has been reviewed and approved having met PMI's rigorous quality criteria for course content, instructor qualification, and instructional design. As an R.E.P. SDL is now pre-approved by PMI to issue Professional Development Units (PDUs) for classroom training courses.

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.

Gender Breakdown: Senior Management and All Employees



Senior Management **All Employees**

The SDL University Partner Program not only supports universities and lecturers in the teaching of translation software worldwide it also offers students help and advice on-the-way to becoming language/translation professionals. The program saw growth and enhancements during 2014 adding 25 new universities as education partners bringing the total to over 350 worldwide in 66 countries.

The roll out of a series of newly developed free training resources for the lecturers and the increasing number of students asking to take advantage of the free SDL Certification both show that our collaboration with universities provides a strong foundation for the translation industry and translation professionals. Sharing our knowledge about Computer Assisted Translation tools and enabling the future professionals to start their career as soon as they leave university is an integral part of our commitment to our partners and customers.

SDL also hosted a "Translation Technology and Career Development Day" at the Antwerp Campus of the KU Leuven university in October 2014. Bringing all participants of the translation supply chain together was a truly interesting experience and for all participants an engaging and inspiring day.

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

- SDL Research joined efforts with University of Southern California, University of Colorado, and the Linguistic Data Consortium to design and develop a semantic formalism, Abstract Meaning Representation (AMR), aimed at improving various natural language applications by allowing for semantic language modeling while abstracting away from morpho-syntactic idiosyncrasies.
- SDL Research offers annually summer internships for outstanding Ph.D. students in the field of Machine Learning and Natural Language Processing. Previous interns joined SDL Research from competitive programs at top universities such as Carnegie Mellon University, University of Southern California, John Hopkins University, University of Cambridge and Heidelberg University.
- SDL also sponsored 5 senior students from Seattle University to automate the workflow between SDL's social media tool, SM2, and the SDL Customer Commitment Dashboard. They developed SQL databases, web services and user interfaces and succeeded in reducing engineer manual intervention.
- SDL began a public-private partnership project with Centrum Wiskunde & Informatica (CWI) to improve cloud-based software for marketing purposes. In this joint project both CWI and SDL contribute to the research budget. The goal of the current research project is to develop an automatic monitoring system for cloud applications to support the decision process for allocating server space from the cloud to applications. The approach followed by CWI researcher Stijn de Gouw, which is based on his dissertation, combines run-time assertion checking with monitoring.
- SDL's relationship with the University of Bristol and the University of the West of England is entirely focussed on internship programs, where the research areas and goals of the internship are determined on a per-case basis.

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.

Corporate Social Responsibility

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.

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 2014 many SDL offices participated in charitable endeavours to help people or organizations in their local communities. You can see activities on our CSR page on www.sdl.com, but here are a few examples:

- Employees from the Sheffield, Bristol, Maidenhead and Wakefield offices took part in the Palace to Palace 45 mile bike ride to raise funds for The Prince's Trust.

- SDL Germany held several fundraising activities for BaanGerda to contribute to funds to build an Orphanage in Thailand.
- SDL Vietnam supported the Tam Duc House of Hope by raising money and visiting the orphanage to spend time with a few of the babies cared for at the facility.
- Ten colleagues from SDL Italy supported IL SOLE ONLUS by translating reports on the children's stories and progress for their Italian sponsors.
- Four colleagues from SDL Sheffield took part in the Sheffield Half Marathon raising money for St Wilfrid's Centre and other SDL Sheffield colleagues set themselves up into three teams and raised money over 5 months also for St Wilfrid's.

- For their nominated charity, One25, several employees from SDL Bristol participated in 'Give it up for 125' – giving things up for 125 days such as alcohol, chocolate or using the lift. Others took on the Mendip Challenge (30 mile walk) and the Bristol Half Marathon, all to raise funds.
- SDL USA – Flatiron raised funds for Partners for Rural Improvement and Development in Ethiopia (PRIDE) by participating in the largest 10K marathon in the United States, the Bolder Boulder. The funds will go towards building more sustainable modular schools in Ethiopia.

- A team from the Kiev office recently participated in a clean-up operation called 'Let's make Ukraine clean' in a central park. Several companies were involved and they successfully managed to take away all the rubbish from a territory in a central park.
- A team from the Sofia office participated in a corporate running relay race alongside many other companies raising money for a local UNICEF initiative.

- The Bangalore office celebrated 'Environment Day' by distributing balcony and outdoor plants to all staff. This is part of the office's initiative called 'Climate Change Awareness' designed to educate employees about climate change and how they can make a positive difference to the environment.

- Seven colleagues from SDL Finland took part in the annual 'Hunger Day Collection', a three-day event where volunteers take to the streets to raise money for the Red Cross.

- SDL CEO, Mark Lancaster, and Roddy Temperley, Global Head of Employee Experience and Human Resources completed the Ice Bucket Challenge and then nominated all the SDL office Site Leaders. Leaders had a bucket of ice water dumped over their heads to raise awareness of ALS, a progressive neurodegenerative disease that affects nerve cells in the brain and the spinal cord. Funds raised will be used in research to combat the disease.

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.

SDL Foundation

A smile is the same in any language

2014 was another successful year for the SDL Foundation. We continued to partner with charities and projects to support projects in disadvantaged communities across the world. We also put a strong emphasis on employee engagement and collaborated with SDL's corporate social responsibility (CSR) programme to enhance awareness of the SDL Foundation and increase employee involvement from SDL's global offices in CSR activities.

The SDL Foundation's main focus is to support applications, initiated by SDL employees, to fund structural and sustainable projects, enabling the recipients to better them and their family's future through income generating activities or educational and vocational training assisting them to achieve full-time employment and improve their quality of life.

Projects in 2014 include:

- Microloan Foundation – the SDL Foundation's funding has helped Microloan to establish thriving loan offices in rural Malawi and Zambia and provide entrepreneurial training to encourage impoverished women to run small and sustainable businesses to enable them to provide for themselves and their families.
- Gua Africa – South Sudan is one of the worst countries in the world in terms of educational facilities and the SDL Foundation agreed to fund a four year teacher training programme, which has seen five young refugees from South Sudan undertake a degree level University course in Nairobi, Kenya. The grant has covered their tuition fees, text books and the cost of accommodation. The students have now graduated and with their new qualification, skills and knowledge they can not only educate thousands of children but they can also help train other teachers.

Hatua Likoni – the SDL Foundation has helped Hatua Likoni to sponsor approximately 200 secondary and university students during 2014. The students come from disadvantaged families in an extremely deprived area of Mombasa, Kenya. Hatua Likoni also provides them with out-of-school mentoring and internship opportunities, which enables the pupils to graduate from University and use their educational skills to give back to the community and contribute to Kenya's growing economy. As a result of this work academic results are significantly above the local and national averages.

Employee Engagement

Wherever possible the SDL Foundation seeks to support projects where SDL employees are able to participate in the projects as well as organise fundraising events to complement the funds provided by the SDL Foundation. The following examples highlight key employee-led endeavours supported by the SDL Foundation:

- The SDL Foundation continued its financial involvement with the Prince's Trust to enable employees to be actively involved in providing interview and CV training to disadvantaged young people seeking work or vocational training.
- The SDL Foundation was pleased to help support the Cluj Build project run by the Habitat for Humanity organisation, a social house building scheme in Romania. Approximately 100 SDL employees from the SDL Cluj office participated in a week long "crowd building" project resulting in the provision of accommodation for a family striving to alleviate poverty; having a secure home from which to work will enable them to provide for their family.

- The SDL Foundation's links with the BeadforLife charity has grown from the basic funding of ox ploughs and modern seed technology to a worldwide fundraising project led by employees in many of the SDL offices. In December 2014, 13 SDL offices took part in a Global Bead Sale, selling handmade beads made out of colourful recycled paper, to support women in Uganda. The money raised helps to provide training and coaching to help the women expand their business, oxen and ploughs to increase farming income and sponsorship for young girls to attend school.

Environment

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

Throughout our operations we strive to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. Our businesses have environmental systems in accordance with ISO 14001.

Our carbon emissions are low compared to other sectors, but they're still our biggest environmental impact and we work to improve energy efficiency across the whole Group.

In calculating our 2014 global footprint we have extended the scope to measure the emissions from 6 main offices and extrapolated for the remaining emissions to cover all of our offices worldwide based on company revenue.

The data below covers the 12 month period ending 31 December 2014 and is presented, where possible for comparison, alongside the data for 2013.

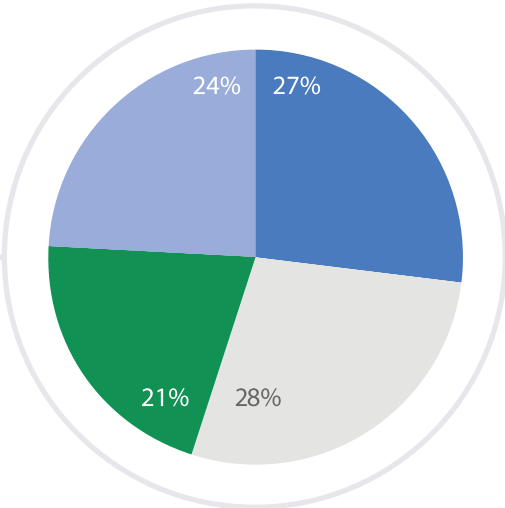
.

2014 Headline Results

SDL's worldwide GHG emissions for the period were 8,647.6 tonnes of CO2e, comprised of the following;

Global Footprint tCO_2e

Activity	tCO_2e
Electricity	2,354.3
Travel	2,392.2
Commuting	1,809.6
Other	2,091.5
	8,647.6



Using an operational control approach, we assessed our boundaries to identify all of the activities and facilities for which we are responsible. Relevant activity data were identified and collected and provided to our independent consultant, Carbon Clear. The validity and completeness of the data were checked by Carbon Clear and used to calculate the carbon emissions for the Group 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 **8,647.6 tonnes of CO2e**, comprised of the following;

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

- Direct Emissions (Scope 1) were **106.5 tonnes of CO2e** or 1.2% of the total.
- Indirect Emissions (Scope 2) were **2,354.3 tonnes of CO2e** or 27.2% of the total.

Scope 3 – Additional Activity Data Reported

- Other, Indirect Emissions (Scope 3) were **6,186.8 tonnes of CO2e** or 71.5% of the total.

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

Type of Emissions	Activity	2014 tCO2e	2013 tCO2e
Direct (Scope 1)	Gas	89.0	212.1
	Diesel	0.0	0.0
	Pool Cars/Company Vehicles	17.5	26.9
	Refrigerant	–	164.5
	Subtotal	**106.5**	**403.5**
Indirect Energy (Scope 2)	Purchased Electricity	2,354.3	2,681.9
	Subtotal	**2,354.3**	**2,681.9**
Indirect Other (Scope 3)	Business Travel	2,392.2	1,508.5
	Commuting	1,809.6	2,235.0
	Additional Upstream Activities	1,268.3	–
	Other	716.7	462.4
	Subtotal	**6,186.8**	**4,205.9**
Total Emissions (tCO2e)		**8,647.6**	**7,291.3**

Intensity metrics of SDL's global operations based on Full Time Employees (FTE):

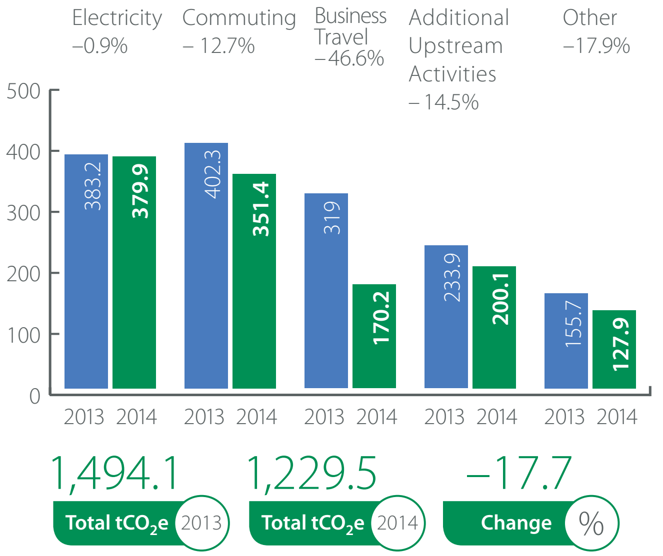
	Tonnes CO2e	Staff (FTE)	tCO2e / FTE
2014	8,647.6	3,245	2.6
2013	7,291.3	3,177	2.3
Percentage change from 2013/2014			13.0%

The reasons for this increase are:

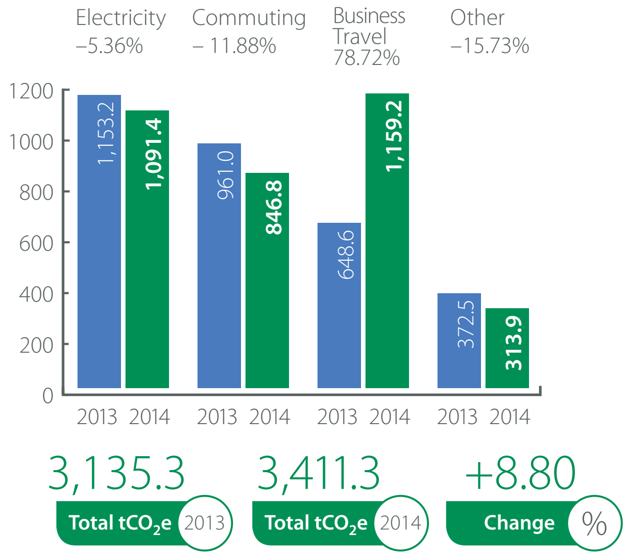
- increase in business travel
- changes to the emission factors published by DEFRA
- improved accuracy of data collection (number of sites increased to 6)

The graphs below provide a comparative analysis of 2013 and 2014 emissions for the Head Office in Maidenhead and five main office sites. To allow for accurate year on year comparisons, the 2013 footprint has been recalculated with actual data from November and December 2013 (previously extrapolated). Data for most activities in 2014 cover a 10 month period and has been extrapolated to provide the full year figures.

Head office footprint 2013/2014



SDL five main sites* footprint 2013/2014



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

Dominic Lavelle
Director
10 March 2015

*Ireland, Japan, Netherlands, UK, USA

Governance

Chairman's overview

On behalf of the Board I'm delighted to present our Corporate Governance report for 2014 and confirm our compliance with the UK Corporate Governance Code.

It is my pleasure to lead a talented Board with the combination of expertise and experience to drive the Group forward. As Chairman I am responsible for ensuring that your Board operates in an effective, transparent and ethical manner, and that we make our decisions based only on what we believe is likely to be for the benefit of shareholders by promoting and maintaining the long–term success of the Company. We can only achieve this within a strong governance framework and we maintain robust processes and procedures to support the principles of good corporate governance.

Good governance means more than merely complying with a set of rules and regulations, and we seek to embed within our business a culture that ensures colleagues across the Group continue to behave in an ethical and principled manner and in compliance with our governance and risk management processes.

Whilst we have a clear strategic path, it is essential to continually develop and evolve the Board to make it relevant and appropriately experienced in the light of both our short-term and longer-term business strategy. To that end we are delighted to welcome Alan McWalter and Glenn Collinson as non-executive directors. They have extensive and highly relevant experience and bring a fresh and new perspective to the Board and its Committees.

Alan McWalter joined SDL as the Senior Independent Director on 1 March 2014. He sits on the Audit and Remuneration Committees and is Chairman of the Nomination Committee. Glenn Collinson joined SDL as a non-executive director and Chairman of the Remuneration Committee on 1 June 2014. He also sits on the Audit and Nomination Committees. We look forward to their contributions to the next stage in the growth of the Group.

David Clayton
Chairman

Corporate Governance

SDL PLC is required to report on how it has applied and complied with the provisions of the UK Corporate Governance Code 2012 (the Code) in force for the year to 31 December 2014. The Code sets out the main principles and specific provisions on how companies should be directed and controlled in order to follow good governance practice.

The Board considers that SDL PLC complied with all provisions of the Code throughout the year to 31 December 2014 and the following Governance report together with the Directors' Remuneration report explains how.

Board of Directors

David Clayton

Chairman | Non-executive director

Tenure: 5 years (appointed December 2009)

Board Committees: Audit and Nomination

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 ("CEO")

Tenure: 23 years (appointed January 1992)

Board Committees: None

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: 1 year (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: 15 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.

Glenn Collinson

Non-executive director | independent

Tenure: Appointed June 2014

Board Committees: Chairman of Remuneration, Audit, Nomination

In 1998 Glenn Collinson co-founded Cambridge Silicon Radio (CSR plc) as a start-up project and was a member of the board of directors that managed the growth of CSR through its listing as a public company in 2004 and up until 2007, serving first as Marketing Director and then as Sales Director. Prior to CSR plc, he held positions including Senior Engineer and then Marketing Manager at Cambridge Consultants Ltd and held positions as a Design Engineer and Marketing Manager at Texas Instruments. He is a member of the Institution of Engineering and Technology and holds a B.Sc. in Physics and a M.Sc. in Electronics from Durham University, as well as a MBA from Cranfield University. Mr Collinson currently holds other non-executive director positions within the technology sector.

Mandy Gradden

Non-executive director | independent

Tenure: 3 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 private-equity owned B2B media and events business. Previous roles include: CFO of the private-equity 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 director | Senior independent director

Tenure: Appointed March 2014

Board Committees: Audit, Remuneration and Chairman of Nomination

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.

The Board

The Board of Directors of SDL PLC is accountable to shareholders and other stakeholders for the long-term success of the Company. Their responsibility includes the key areas of strategy, performance, resources, and standards of conduct. The Board also has ultimate responsibility for corporate governance which it discharges either directly or through its Committees (described in the following pages of this Governance report).

The current Directors' biographies are set out on pages 24 and 25. The Board is satisfied that each Director has the necessary time to devote to the effective discharge of their responsibilities and that between them the Directors have a blend of skills, experience, knowledge and independence suited to the Company's needs and its continuing development.

Roles within the Board

The Chairman is responsible for running the Board. The Chief Executive Officer is responsible for the operations of the Group and for the development of strategic plans and initiatives for consideration by the Board.

The Senior Independent Director (SID) provides a sounding board for the Chairman and a focal point and intermediary for the concerns of the other non-executive directors. The SID has regular dialogue with the Chairman on current issues. He is also available to shareholders should they have any concerns which have not been resolved through the normal channels of Chairman or Chief Executive or if the normal channels may be inappropriate.

The non-executive directors have a key role in scrutinising management's performance in meeting agreed goals and objectives, providing a constructive challenge where necessary. They must also be satisfied with the integrity of the Group's financial information and the robustness and defensibility of financial and non-financial controls and risk management systems.

The non-executive directors are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. They are not eligible to participate in any of the Company's share option or pension schemes. The Chairman also meets regularly with the non-executive directors without the presence of the executive directors.

Annual Re-election of Directors

All directors retire at each AGM and offer themselves for re-election by shareholders. At the 2015 AGM all continuing directors will be offering themselves for re-election (or election in the case of Alan McWalter and Glenn Collinson).

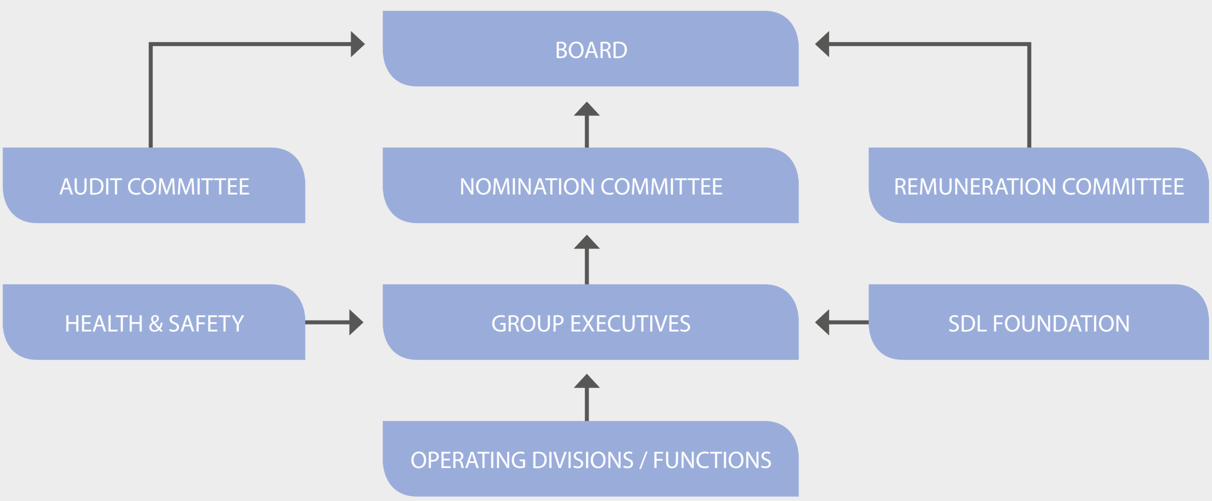
The Board has established a formal "Schedule of matters specifically reserved for decision by the Board" available on our website (www.sdl.com). It has delegated other specific responsibilities to its Committees and these are clearly defined within the respective Committee's terms of reference. These terms of reference are formalised and reviewed from time to time and available to view on our website. In addition to the principal Committees (Audit, Nomination and Remuneration), the Board from time to time establishes committees to deal with specific matters on its behalf.

Extract from the schedule of matters reserved for the Board:

- Material acquisitions and disposal of assets.
- Investments, capital projects, authority levels, treasury policies and risk management policies.
- Dividend policy.

Board matters and delegation

Governance structure



- Non-executive directors' remuneration.
- Major items of discretionary revenue expenditure.

Information and Support

The board has processes in place to ensure that it receives the right information in the right form at the right time to enable it to effectively discharge its duties. The Chairman, with the support of the executive directors and the Company Secretary, ensures that this information is appropriate, clear, comprehensive and accurate.

The directors have access to independent external professional advice at the Company's expense where they judge this necessary to discharge their responsibilities as directors.

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

- Audit Committee
- Nominations Committee
- 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 31–48.

The Company Secretary or her delegate acts as secretary to the Committees. See below for the calendar for meetings of the Board and its committees

Activities in 2014

The Board meets regularly throughout the year to discharge its duties. It met seven times during 2014 and has met twice between 31 December 2014 and the date of approval of this annual report.

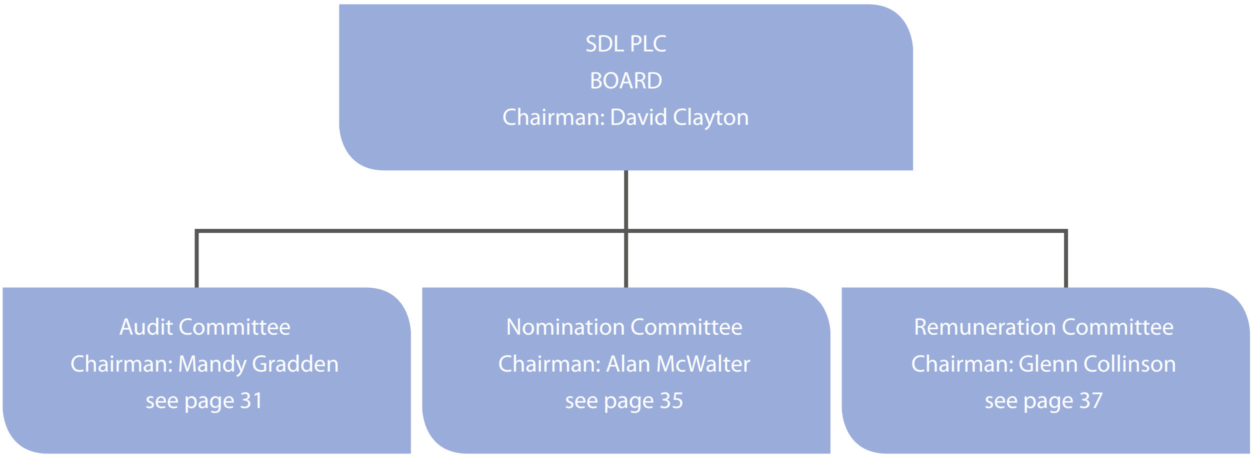
The Board's framework agenda is determined at the beginning of the year to ensure that certain items of business are reviewed at appropriate intervals. Matters considered at all board meetings include: CEO's report on strategic and business developments; CFO's report based on the latest management accounts; 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 from functional and operational senior managers. Debate and discussion at the Board and Committee meetings is encouraged to be open, challenging and constructive.

Activities in 2014

2014	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Board meetings	×		×	×		×	×			×	×	
AGM				×								
Strategy/Planning meetings										×	×	
Audit Committee			×			×	×			×	×	
Nomination Committee				×			×			×		
Remuneration Committee	×			×		×				×	×	

2014 Dashboard

Structure



Board composition as at 31 December 2014

	Date first elected by shareholders	Years from first election to the 2015 AGM	Considered to be independent by the Board
Non-executive directors:			
David Clayton	April 2010	5	Yes
Chris Batterham	April 2000	15	Yes*
Glenn Collinson	Standing for first election in April 2015	0	Yes
Mandy Gradden	April 2012	3	Yes
Alan McWalter	April 2014	1	Yes
Executive directors:			
Mark Lancaster	April 2000	15	n/a
Dominic Lavelle	April 2014	1	n/a

All Board committees are made up of independent non-executive directors.

*The Nomination committee noted that Chris Batterham has served for 15 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. He has a breadth of experience and brings a degree of objectivity to the board's deliberations, playing a valuable role in monitoring executive management. The Board also noted Chris Batterham's resignation from all Board Committees resulting in a fully independent Committee membership. The Nomination Committee will keep his independence under review.

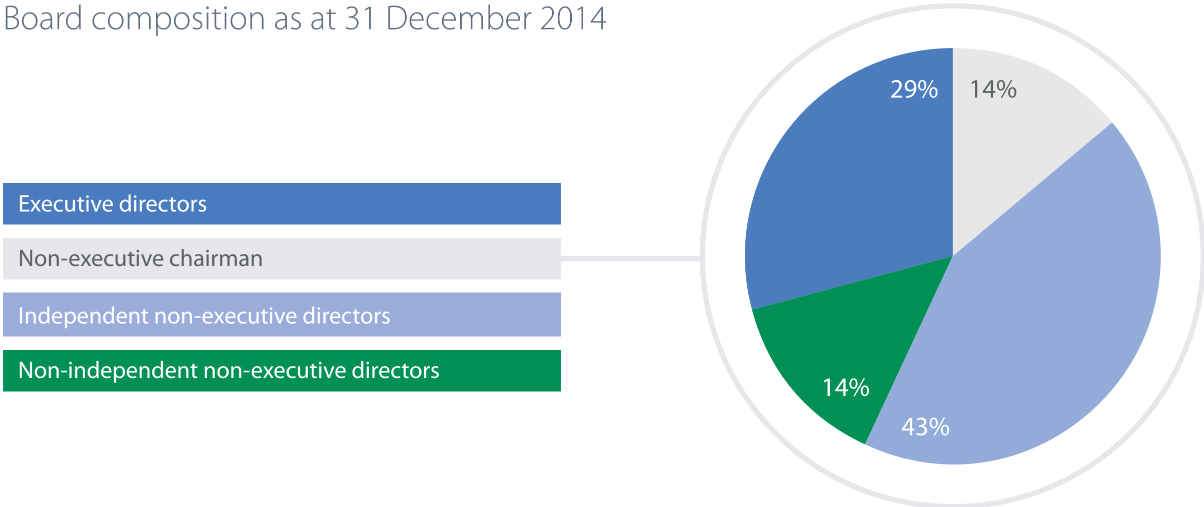
John Matthews who resigned from the Board as a non-executive director in April 2012 continued to work with the Company throughout 2014 as a consultant. John Matthews was a non-executive Director from 2002 to 2012. He chaired the Audit and Remuneration Committees and, at the time of his retirement from 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 keeps the balance and independence of the non-executive directors and its advisors under review. Norman Broadbent worked with the Nomination Committee in 2014, analysing the skills and succession needs of the Board to identify two new non-executive directors who have added strength to the Board and fit the culture. Alan McWalter and Glenn Collinson joined SDL in March and June 2014 respectively (see biographies on page 25).

The Board, through the Nomination Committee, follows a rigorous and transparent procedure to select and appoint new Board directors. The processes are similar for the appointment of executive and non-executive directors. The Nomination Committee leads the process and makes recommendations to the Board. Further information on the Nomination Committee and its work is set out in the Nominations Committee section of this report. 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 2014



Changes during 2014

March 2014

Alan McWalter joined SDL PLC as Senior Independent Director working closely with the Chairman, acting as a sounding board and providing support. This appointment continues the Company's process of developing best governance practice allowing David Clayton to focus on his role as Chairman. Alan McWalter is appointed Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees.

April 2014

Joe Campbell stepped down from the Board at the 2014 AGM.

June 2014

Glenn Collinson joined SDL PLC as Remuneration Committee Chairman and is appointed a member of Audit and Nomination Committees. Mark Lancaster retires from the Nomination Committee following Glenn Collinson's appointment as a third Nomination Committee member.

Attendance at scheduled meetings of the Board and its Committees during 2014

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Current directors:				
Chairman:				
David Clayton	7/7	5/5	3/3	6***
Executive directors:				
Mark Lancaster	7/7	3*	2/2	2*
Dominic Lavelle	6/7**	4*	–	1*
Non-executive directors:				
Chris Batterham	7/7	4*	–	5*
Glenn Collinson	3/3	4/4	2/2	4/4
Mandy Gradden	7/7	5/5	-	6/6
In attendance:				
Consultant: John Matthews	7*	1*	–	3*
Directors who stepped down in 2014:				
Joe Campbell	2/2	–	–	2/2

*Attendance by invitation.
** Absence due to prior commitment and agreed with Chairman in advance.
*** David Clayton attended two meetings as a member of the Committee and 4 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.

Evaluation of the Board, Board Committees and Directors

Following the Board review conducted by Lintstock Ltd in 2013, SDL retained the services of Lintstock to undertake a follow up evaluation of the performance of the Board in 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. The process picked up on themes identified in the 2013 exercise, and had a particular focus on the Board's role with respect to strategy.

In addition to the Board and its key Committees, the 2014 Review also included an 'upward' component where the performance of the Board was considered from the perspective of the Executive Management team, and included a case study of the Board's 2014 strategy day. 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, including the ratio of Non-Executive to Executive Directors, was considered. The Board members' views as to the key changes that should be made to the Board's profile over the next 3 - 5 years, in context of the company's strategic goals, were identified.
- The management of time at the Board, including the annual cycle of work and the Board's agenda, was considered, as was the balance between strategic and performance issues on the agenda.
- 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 involvement of the Board in determining SDL's strategic direction was assessed, and the performance of the Board in testing and developing the strategy was considered. The performance of the company in capturing strategic opportunities was also addressed.
- The delegation of power from the Board to executive management was reviewed, and the analysis of the performance of the business, and the understanding of performance relative to competitors, were considered. The views of the Board members as to the top strategic issues facing SDL were identified.
- The Board's management of the main risks to the business was reviewed, as was the Board's risk appetite.
- The structure of SDL at senior levels in support of the strategy was considered, as was the succession planning for Executive Directors and for management beneath the Board, and the Board's ability to evaluate top management.
- The composition and performance of the Committees of the Board were also considered in the review, as was the performance of the Chairman.
- The perspective of the Executive Management team on the core topics above was then considered.

As a result of the exercise, amongst other things, the Board agreed to review the financial information provided to the Board, consider the Executive representation on the Board as currently composed, and increase the focus on succession planning processes for the Executive Directors and key management positions beneath the Board.

Diversity

The search for Board candidates is conducted and appointments made on merit against objective selection criteria having due regard, amongst other things, to the benefits of diversity on the Board, including gender.

Other relevant matters, such as independence and the ability to fulfil required time commitments in the case of non-executive directors, are taken into account. The Board will consider suitably qualified candidates for non-executive director roles from as wide a pool as appropriate, including candidates with little or no previous listed company board experience but whose skills and experience will add value to the Board. The Board will brief executive search consultants engaged in the selection process for non-executive directors to review candidates from a variety of backgrounds and perspectives. The Board will only engage executive search consultants who have signed up to the voluntary code of conduct for executive search firms on gender diversity on corporate boards.

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.

Audit Committee

"The year under review has been a busy one with the Committee focused on satisfying itself that internal controls are running effectively and working with the new KPMG group audit partner on all areas of audit planning, including audit scope, to ensure the delivery of a robust and value-adding audit."

Mandy Gradden
Chairman, Independent non-executive director

Membership in 2014

Mandy Gradden – Chairman

David Clayton

Alan McWalter – appointed on 1 March 2014

Glenn Collinson – appointed on 1 June 2014

Membership in 2015

Mandy Gradden – Chairman

David Clayton

Alan McWalter

Glenn Collinson

Dear Shareholder,

As Chairman of the Audit Committee, I am pleased to present our report for 2014. The year has been a busy one with the Committee focused on satisfying itself that internal controls are running effectively and working with the new KPMG group audit partner on all areas of audit planning, including audit scope, to ensure the continued delivery of a robust and value-adding audit.

The Committee acts independently of management to ensure your interests are protected in relation to financial reporting, risk management, internal control and related compliance activities. In addition to the Committee's normal agenda, we specifically reviewed the efficiency and effectiveness of the Group's treasury and foreign exchange management, business continuity and disaster recovery plans, and the Group's legal and tax structure with the aim of making it more efficient.

Looking forward to 2015, we will continue to regularly assess our systems against the changing regulatory environment including the impact of the new revenue recognition standard in 2017, and focus on mitigating controls over the Group's principal risks.

Mandy Gradden
Audit Committee Chairman

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;
- Reporting to the Board on the appropriateness of accounting policies and significant judgements;
- Advising the Board on the clarity and completeness of disclosure in the Group's annual 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;
- Assessing the adequacy and effectiveness of the Group's internal financial controls and risk management processes;
- Reviewing internal audit reports and monitoring the effectiveness of the group's internal audit provision.
- Overseeing the relationship with the external auditor;
- Carrying out any in-depth reviews of specific areas of financial reporting, risk and internal control, as necessary.

The Committee

The Audit Committee is made up entirely of independent non-executive directors, listed below. Mandy Gradden has chaired the Committee since July 2013. She is a Chartered Accountant and holds the position of Chief Financial Officer of Top Right Group and previously was CFO of private and publicly quoted technology businesses. The Board considers that Mandy Gradden has recent and relevant financial experience, as required by the Code. All of the Committee members have significant executive experience in various industries and full biographical details are set out on pages 24 and 25. This range and depth of financial and commercial experience enables them to deal effectively with the matters they are required to address and to challenge management when necessary. The Company Secretary is secretary to the Committee.

The Committee met five times during 2014. Dates and attendance were as follows:

	4 Mar 2014	24 Jun 2014	30 Jul 2014	24 Oct 2014	25 Nov 2014
Mandy Gradden - Chairman	✓	✓	✓	✓	✓
David Clayton	✓	✓	✓	✓	✓
Glenn Collinson – appointed 1 June 2014	n/a*	✓	✓	✓	✓
Alan McWalter – appointed 1 March 2014	✓	x**	✓	✓	✓

*this meeting pre-dates Glenn Collinson's appointment to the Company.

** Alan McWalter was unable to attend the meeting on 24 June 2014 due to a commitment arranged prior to his appointment to the Company.

Since the end of the year, the Committee has met once (5 March 2015) and all members attended.

Only the members of the Committee have the right to attend Committee meetings however, the Committee invites the external auditor, KPMG Audit Plc ("KPMG") to every meeting. The Chief Financial Officer, the Chief Executive Officer, the Group Finance Director and the Group Tax Manager also attend meetings by invitation of the Committee. The Committee considers that the presence of these executives does not influence or restrict the Committee's open deliberation of matters or the Committee's independence, and finds that their presence has the advantage of enabling the Committee to raise questions directly of them and, where necessary, to challenge them about matters under review. If the presence of any attendee is inappropriate or might compromise discussion, then the Committee would either not invite the attendee concerned or request that they not attend part of the meeting.

The Committee regularly meets with KPMG in the absence of executive management. Outside of the formal meetings described here, the Chairman meets regularly with KPMG, the Chief Financial Officer and other executives.

The Committee undertakes its duties in accordance with its terms of reference which are available on the Company's website. These were reviewed during the year to ensure that they remained fit for purpose and in line with best practice guidelines.

As part of the formal annual Board evaluation, the Committee's effectiveness was subject to review in 2014 facilitated by an independent consultant. Details of the process can be found on page 30. The Committee's composition was reviewed to ensure that there is sufficient expertise and resource to fulfil its responsibilities effectively.

Committee Meetings in 2014 and 2015 to date

Date	Key Agenda Items
4 March 2014	Approval of 2014 internal audit site visit program Annual results • Significant accounting issues • External auditor's report • Review of preliminary results and draft announcement Key Judgements Draft Annual report Review of accounting policies assumptions, judgements and estimates
24 June 2014	Internal audit report Scope of Interim Audit Treasury/Foreign exchange review Review of the Internal audit organisation Review of corporate structure Annual review of internal controls
30 July 2014	Interim results • Significant accounting issues • External auditor's interim review report • Review of interim preliminary results announcement Key Judgements
24 October 2014	External auditor Audit Strategy report Group Tax matters review
25 November 2014	Internal audit report Business continuity and Disaster Recovery review Evaluation of the Committee's performance (for review by the Board in January 2015)
5 March 2015	Annual results • Significant accounting issues • External auditor's report • Review of preliminary results announcement Key Judgements Draft Annual report Non Audit fees Effectiveness of External audit

Committee Activities in 2014

During 2014, the Committee's agenda included consideration of the following topics:

Financial Results

An essential part of the Committee's role is to review 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. A critical part of this assessment is our review of matters that required the exercise of a significant element of judgement. The significant judgements considered by the Committee in relation to the 2014 accounts were:

Technology Revenue Recognition: The recognition of revenue in the income statement, or conversely deferred revenue on the balance sheet, on licenced software and related services requires judgement which could materially affect the timing and quantum of revenue and profit recognised in each accounting period. These judgements become more critical in multi-element contracts where license, maintenance, hosting and professional services are bundled together. With the growth in the Group's software-as-a-service and other recurring technology revenues, these judgements are becoming more material.

The Group has a detailed policy on revenue recognition for each category of technology revenue including the allocation of fair values between the different categories. Audit procedures performed by KPMG and reported to the Committee included, inspecting those contracts contributing the highest levels of licence revenue and assessing revenue recognition against the Group's accounting policies. Where new revenue streams emerge the Committee reviews revenue recognition policies adopted by management. The Committee also considered the findings of the external auditor. The policies and controls adopted in 2014 are consistent with prior years and are considered appropriate by the Committee. The Committee is comfortable that management have been appropriately prudent where contract clauses require judgement and concluded that the timing of recognition continues to be in line with IFRS requirements.

Impairment of goodwill and intangibles: The carrying value of goodwill and intangibles at £202.6 million exceeds the £202.1 million net assets of the Group and is also significant compared to the £350 million market capitalisation of the Group. In the prior year, an impairment of £20.4 million was recorded against goodwill. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, this is one of the key judgemental areas. In 2014, it has not been considered necessary to impair goodwill.

The key assumptions applied in calculating the value in use include discount rates and future performance expectations of the Technology business. The Committee received a detailed report from management on both the assumptions underlying the impairment review and the outcome of the review. The Committee examined and challenged the key assumptions. The Committee has also considered the disclosure surrounding the review and concluded that it is appropriate.

The impairment review was also an area of focus for the external auditor who reported their findings to the Committee.

Deferred taxation: The recognition of deferred tax assets on tax losses is a key judgement, particularly given the Group's structure and extent of intercompany transactions and associated transfer pricing. It requires the Group to be sufficiently certain that taxable profits will be generated in the future against which those tax losses may be recoverable.

The judgement is complicated further by detailed local legislation.

The deferred tax credit of £3.1 million is a material component of the Group's overall tax charge of £2.8 million.

The Committee received regular reports and verbal updates from management concerning tax risks, including deferred taxation. The Committee reviewed the judgement of management in assessing whether deferred tax assets will be recoverable in future periods. The external auditor also reported on their findings.

Internal Audit

Internal audit activities are presently carried out by members of the Group's Head Office finance team or by peer reviews to provide a level of independence. The Committee agrees both the standard work programmes and the rota of site visits to be undertaken and reviews reports of the site visits prepared by the Group Finance Director.

At the June 2014 Committee meeting, the need for, and potential scope of, a full-time, independent Internal Audit department was reviewed. 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 full-time independent internal audit function is required at this time. These arrangements will be kept under review.

Internal control, risk management and site visit

A review by the Audit Committee and the Board of the effectiveness of the Group's risk management and internal control systems is undertaken annually. As part of its agenda, the Committee allowed time for in-depth reviews of particular areas. In 2014, for example, this included a review of the corporate structure and a review of the Business Continuity and Disaster Recovery plans. Key elements of the Group's internal financial control framework and procedures include:

Internal Audit programme: Five or six specific business units are selected for audit of compliance risks and vulnerabilities in consultation with the Audit Committee. Reports received from this programme summarised the audits undertaken during the year, the key findings of those audits, any recommendations to address the findings and the progress made by the business unit in implementing the recommendations of this and prior visits. The Committee considered and approved the site visit program for 2015.

Tax Risk reviews: The Committee received and considered presentations from the Group Tax Manager on the group's principal tax risks and how these were managed. The Committee approved the strategy and focused on potential risks associated with the failure to deliver the tax strategy as well as tax reporting and accounting.

Operational reviews: There are regular meetings of the executive team with the executive directors to review operational aspects of the business.

Financial reporting: There is a Group-wide system of financial reporting, budgeting and cash forecasting through which financial accounts are prepared and submitted to the Board monthly.

Financial data verification: There is regular preparation and, when appropriate, update of profit and cash flow forecasts, to monitor actual against expected performance.

System reviews and transformation projects: There are regular meetings of the Board at which progress and business risks are reported upon and monitored.

External Audit

The Committee reviews the performance of the external auditor taking into account their performance against the agreed audit plan, input from management and responses to questions from the Committee and audit findings reported to the Committee. From these activities, the Committee has concluded that the external audit process operated effectively throughout 2014 and KPMG continue to prove effective in their role as external auditor. In 2015, the Committee intends to use a questionnaire completed by Committee members, executive directors and key members of the Group's finance personnel to assist in the assessment of external audit effectiveness.

KPMG have been auditors to the Group since 2010. Following the retirement of Paul Gresham who had been the KPMG audit partner for four years, in 2014 Simon Haydn-Jones became the lead KPMG audit engagement partner on SDL's audit following interviews with the Committee Chairman and the executive directors, which focused on industry experience, particularly regarding the Group's most judgemental audit areas such as technology revenue recognition. Audit scope and materiality was reviewed and refined in 2014 to address the development of the Group.

The Committee is satisfied with the auditor's effectiveness and independence and does not consider it necessary to undergo a tender process at this time but is carefully monitoring how best practice develops around EU audit reform and the UK Competition and Markets Authority guidelines.

The Committee approves all non-audit work greater than £20,000 commissioned from KPMG and takes into account both cost effectiveness that often arises from the auditor's accumulated knowledge of the Group and practicality. In 2014, the fees paid to the auditor were £354,000 (2013: £365,000) for audit services and £351,000 (2013: £338,000) for non-audit services.

The majority of the non-audit services provided by KPMG were in respect of taxation advice including tax compliance and preparation of tax returns (£231,000) and advice on overseas tax loss availability (£40,000). The majority of the work in this area will be completed in 2015. The Committee concluded that it was in the interests of the Group to use KPMG for this work because of their knowledge and experience of the Group gained in the role of compliance advisors over several years thereby making the work more efficient and better value. The Audit Committee keeps under review the cost effectiveness, independence and objectivity of the external auditor and has adopted a formal written process in this regard. The auditor also confirms that it has complied with relevant independence standards. The Committee was also satisfied that no conflicts of interest existed or would arise in the course of the work.

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

"This has been an important year for our Nomination Committee. Amongst other matters we recommended the appointment of two new non-executive directors and nominated a new Senior Independent Director."

Alan McWalter
Chairman

Membership in 2014

Mark Lancaster – resigned as Chairman on 29 April 2014 and resigned from the Committee on 30 July 2014

Alan McWalter appointed Chairman on 29 April 2014

David Clayton

Joe Campbell resigned on 29 April 2014

Glenn Collinson appointed 30 July 2014

Membership in 2015

Alan McWalter (independent non-executive director) – Chairman

David Clayton (Non-executive director)

Glenn Collinson (independent non-executive director)

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.
- Advise the Board and make recommendations to the Board on the appointment and removal of Board members.
- 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.
- Terms of reference available on the website: www.sdl.com.

The Committee

The Committee consists of Alan McWalter (Chairman), David Clayton and Glenn Collinson, all non-executive directors of the Company. Alan McWalter has chaired the Committee since 29 April 2014, replacing Mark Lancaster.

Only members of the Committee have the right to attend meetings, however the CEO as well as external advisors may attend all or part of any meeting by invitation as and when appropriate.

The Company Secretary is secretary to the Committee.

Meetings and Activities in 2014

The Committee meets on an ad-hoc basis usually immediately prior to or following a board meeting, and on other occasions as may be needed.

The Committee met three times during the year ended 31 December 2014 and the Chairman of the Committee keeps members up to date by means of email or telephone between meetings. The dates of the meetings and attendance at those meetings were as follows:

	29 April 2014	30 July 2014	13 October 2014
Mark Lancaster	✓ (resigned as Chairman)	✓ (resigned from Committee)	n/a
Alan McWalter	✓ (appointed Chairman)	✓	✓
David Clayton	✓	✓	✓
Joe Campbell	✓ (resigned from Committee)	n/a**	n/a**
Glenn Collinson	n/a*	✓	✓

*this meeting pre-dates Glenn Collinson's appointment to the Company.
** these meetings were post Joe Campbell's resignation from the Company.

Since the end of the year the Committee has met once on 5 March 2015. All members attended.

Activities during 2014:

Appointment of non-executive directors - in the first quarter of 2014 the Committee oversaw the appointment of two new non-executive directors to the Company: Alan McWalter (appointed to the Board on 1 March 2014) and Glenn Collinson (appointed to 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 tasked with conducting a search against an agreed specification and to shortlist candidates with suitable skills and experience. Recommendations were made to the Board that the new non-executives be appointed and the Board accepted the recommendation.

Non-executive director succession – succession to the roles of Senior Independent Director, Chairman of the Nomination Committee and Chairman of the Remuneration Committee were considered. Alan McWalter was appointed Senior Independent Director on 1 March 2014 and appointed Chairman of the Nomination Committee on 29 April 2014. Glenn Collinson was appointed Chairman of the Remuneration Committee on 1 June 2014.

Review of re-election of the directors at the AGM – it was noted that Chris Batterham has served for more than fifteen 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 that Chris Batterham does not serve on any Board Committees. The Nomination Committee will keep his independence under review.

Review of performance and effectiveness – as part of the Board evaluation for 2014 (see page 30 for more details) views were sought from all Committee and Board members. Matters covered included time management, processes and support and priorities for the coming year. The responses were distributed to the Committee in November and discussed in more detail at the Board meeting in March 2015. The current composition of the Nomination Committee was rated highly, furthermore it was suggested that the key changes made during 2014 have proved valuable. Suggestions made as to how best the Committee could improve its performance over the coming year included having oversight of formal succession plans for key managers.

Diversity

The search for board candidates is conducted, and appointments made, on merit against objective selection criteria having due regard, amongst other things, to the benefits of diversity on the board, including gender. The Committee and the Board acknowledge 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. To this end, the Board will maintain its practice of embracing diversity in all its forms but has chosen not to set any measurable objectives.

On behalf of the Nomination Committee

Alan McWalter

Chairman of the Nomination Committee

Remuneration Committee

Directors' Remuneration Report

"...the Committee considers this to be a balanced policy, aligning reward and incentives with strategy and with the long term interests of shareholders."

Glenn Collinson
Chairman, Independent non-executive director

Membership in 2014

Joe Campbell – Chairman resigned at the AGM in 2014

Glenn Collinson – incoming Chairman

David Clayton – resigned from the Committee on 1 June 2014

Mandy Gradden

Alan McWalter

Membership in 2015

Glenn Collinson – Chairman

Mandy Gradden

Alan McWalter

Key Objectives:

- Determine the Group's policy on remuneration and monitor its implementation.
- Approve the design and performance criteria of share-based-plans.
- Approve the remuneration package for each executive director.

Responsibilities

- The Committee's full terms of reference are set out on the Group's website www.sdl.com.

The Committee

The Committee is comprised entirely of independent non-executive directors: Glenn Collinson (Chairman), Mandy Gradden and Alan McWalter. Joe Campbell was Chairman of the Committee until the AGM in 2014, when he resigned from the Committee and from the Board. David Clayton resigned from the Committee on 24 June 2014 on the appointment of Glenn Collinson and in recognition of the best practice of Chairmen of Boards not serving on their Remuneration Committee.

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 2014

- Review of the executive directors' annual bonuses and vesting of share plans.
- Benchmarking exercise on executive director and senior management remuneration packages.
- Established the executive directors' bonus for 2014 and a bonus structure for senior management.
- Reviewed the vesting criteria for share-based awards made in 2011.
- Approved share-based awards for 2014.
- Investor engagement: met with shareholders and reviewed feedback on executive remuneration.
- 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 2014 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 (Total Shareholder Return ("TSR") and EPS) of share-based incentives.
- Towers Watson for market data and benchmarking executive rewards; advice on market practice; and reward consultancy.
- Mercer for Market data and benchmarking executive rewards.

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

This report covers the activities of the Remuneration Committee for the year ended 31 December 2014 and sets out the remuneration policy and remuneration details for the executive and non-executive directors of the Company. Below is a Letter from the Remuneration Committee Chairman followed by the Remuneration Policy and the Annual Report on Remuneration. The Annual Report on Remuneration provides details on remuneration in the period will be subject to an advisory shareholder vote at the Annual General Meeting (AGM). The Policy Report which sets out the directors' remuneration policy was subject to a binding shareholder vote at the AGM held in April 2014. This policy will apply until the AGM in 2017, unless revised by a vote of shareholders ahead of that time. It is not proposed to amend the directors' remuneration policy at the Annual General Meeting in 2015. The Companies Act 2006 requires the auditor to report to the shareholders on certain parts of the report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts that are subject to audit are indicated therein. The Letter from the Remuneration Committee Chairman and the Policy Report are not subject to audit.

Dear Shareholders

On behalf of the Board I am pleased to present the Directors' remuneration report for the year ended 31 December 2014 for which we will be seeking your approval at the 2015 AGM. This report has been prepared by the Remuneration Committee and approved by the Board.

It is divided into two sections:

- The Policy Report which sets out our forward-looking remuneration policy. The Remuneration Policy is unchanged on that which was approved at the 2014 AGM.
- The Annual Report on Remuneration, which sets out how our directors were paid in the year ending 31 December 2014 in accordance with the current policy.

Our objective is that the directors' remuneration policy should be stable, easy to understand and reward the right behaviours.

The Committee is mindful of the need to demonstrate the link between remuneration and performance of the Company and is satisfied that the incentive outcomes in 2014 prove this to be the case. The Long Term Incentive Plan (LTIP) awards and Share Options granted in 2011 were subject to a relative Total Shareholder Return (TSR) performance; the Company's TSR over this period was below threshold and as a result the 2011 LTIP and Share Options did not vest. Whereas this demonstrates that the journey to execute the long range plan is still work in progress, the improvement in the financial performance in 2014 versus 2013 was marked, justifying the increase in the annual cash bonus for the CEO to 136% of base salary . This resulted in the overall total figure for remuneration for the CEO increasing substantially, when compared to 2013 during which performance was very disappointing, to £1.28 million, although this is still below the on-target figure for total remuneration of just over £1.5 million shown in the Illustration of the 2014 Policy in last year's Annual Report. The Committee considers that these incentive outcomes are appropriate given the performance of the Company during 2014. There were no base salary increases for the Executive Directors in 2014.

In 2015 the Committee will be reviewing the effectiveness of the current LTIP in attracting, retaining and motivating our employee population. As part of this review, the Company will assess whether this population could be better incentivised by rewarding for performance against a different balance of financial and share price metrics, because an over dependence on share price metrics alone can be remote for many staff. Any changes to the LTIP for sub-Board employees may justify some changes to the LTIP structure for the executive directors too. We expect that the review will be concluded during 2015, at which point we will consult with shareholders on any substantive changes and seek shareholder approval, as appropriate.

The Annual Report on Remuneration will be put to an advisory shareholder vote at the 2015 AGM.

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

Glenn Collinson
Remuneration Committee Chairman

Policy Report – Directors' Remuneration

Policy overview

The Remuneration Committee (the Committee) regularly reviews the Policy to ensure it supports shareholder interests and closely reflects business strategy.

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

- the need to attract, retain and motivate talented Executive Directors and senior management;
- the need to provide annual incentives that reward achievement of short-term objectives key to delivering the long-term strategy;
- 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 on page 48.

Remuneration policy

The table below sets out the remuneration policy that was effective from the 2014 AGM and summarises the key aspects of the Company's Remuneration Policy for Executive Directors, subject to shareholder approval at that AGM. It explains how each element of Executive Directors' remuneration package operates.

Total remuneration packages for Executive Directors are made up of salary, pension, benefits, annual bonus and long term incentive plan awards. This policy remains unchanged from the year ended 31 December 2014. Changes to the previous policy are marked in blue.

	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 and Mercer).	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 44 and 45 for details of payments in 2014.	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% of salary.	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 2014 objectives are provided in the implementation of directors' remuneration section. The measures that will apply for the financial year 2015 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

**the Remuneration Committee would like to clarify that any arrangement specifically established to retain an individual would have performance criteria in line with those contained in the LTIP plans and the value be capped at 150% of base salary. To alleviate any concerns around the scope of this discretion, the Committee confirms that this mechanism would only be used in very narrow circumstances - that is, in exceptional circumstances. The Committee considers that these circumstances would arise highly infrequently, if at all, in the lifetime of the policy. The Committee would regard reliance on this discretion as a matter of utmost seriousness and, in relation to the stated obligation to consult in advance with major shareholders, would not proceed unless there was clear consensus in favour among those consulted.

Notes to the remuneration policy table

Annual Bonus: The measures used under the annual bonus schemes are selected annually to reflect the Group's main strategic objectives for the year. The 2014 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 2013 bookings, by five per cent. There is no bonus payment if bookings growth is below five per cent. The bookings multiplier is linear; zero below five per cent and scaling up to one and a half at fifteen per cent. There is no individual revenue or profit performance cap in the cash bonus calculation but the overall cash bonus payable to executive directors is capped at 150% of base.

For details of 2014 payments see pages 44/45.

For 2015 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 operating margin and revenue. Directors will be eligible to an additional over-performance payout if the Group over-achieves on its target bookings – bookings multiplier. 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.

Long-Term Incentive plan: The current SDL Long Term Share Incentive Plan was approved by shareholders at an Extraordinary 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 The Investment Association ("TIA").

As an alternative to dilution, awards may be satisfied by the transfer of shares purchased in the market via the Company's existing Employee Benefit Trust should that route be considered to be in the best interests of the Company.

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.

Claw back/Malus

There are no specific provisions to withhold or recover sums paid under short and long term incentives.

Retention Arrangement

No additional, special retention arrangements were made to the executive directors during the last year.

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 sharebased 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.

Discretion

The Committee reserves certain discretions in relation to the outcomes for Executive Directors under the Company's incentive plans.

These operate in two main respects:

- enabling the Committee to ensure that outcomes under these plans are consistent with the underlying performance of the business and the expectations of shareholders; and
- enabling the Committee to treat leavers in a way that is fair and equitable to individuals and shareholders under the incentive plans.

The Committee will also use its judgement as to what is appropriate within the terms of the Directors' Remuneration Policy to make decisions that do not involve the exercise of discretion.

Policy on 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 44 and 45.

- 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.

Illustration of 2015 remuneration policy

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors and the split between the different elements of remuneration under three different performance scenarios: 'Below target', 'On-target' and 'Exceptional'.

Potential reward opportunities are based on SDL remuneration policy, applied to base salaries as at 1 January 2015. Note that the projected values exclude the impact of any share price movements. For this reason, were the LTIPs to vest in full, actual total remuneration may exceed the value shown in the chart below.

Three scenarios have been illustrated for each executive director:

Below target performance – No bonus payout – No LTIP vesting

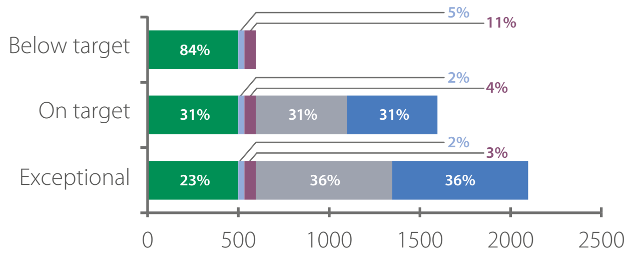
Target performance – between 50% and 100% of salary payout in annual bonus – LTIP equivalent to 100% of salary vesting

Exceptional performance - 150% of salary payout in annual bonus – LTIP equivalent to 150% of salary vesting

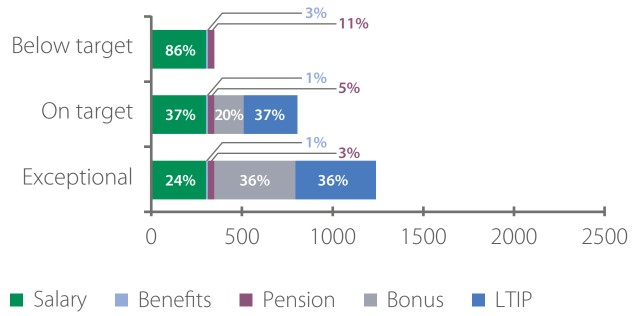
The scenarios below do not take into account share price appreciation or dividends. For the purpose of the illustrations the value of each component has been rounded to the nearest £1,000.

Below target performance:	no bonus payout no vesting of the LTIP award in 2015
On 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

CEO Illustration



CFO Illustration



Strategic Report

Annual Report on Remuneration 2014 Application of Policy

Information subject to audit

The following table sets out a single figure for the total remuneration received by each director during 2014 versus 2013.

	Basic salary and fees (£)		Taxable benefits (£)		Pension (£)	
	2014	2013	**2014**	2013	**2014**	2013
David Clayton	**70,000**	57,500	–	–	–	–
Mark Lancaster	**500,000**	500,000	**38,595**	32,557	**60,000**	64,036
Dominic Lavelle	**280,000**	28,718	**12,464**	1,231	**33,600**	–
Chris Batterham	**40,000**	40,000	–	–	–	–
Joe Campbell	**24,000**	46,130	–	–	–	–
Glenn Collinson	**26,250**	–	–	–	–	–
Mandy Gradden	**45,000**	35,000	–	–	–	–
Alan McWalter	**37,500**	–	–	–	–	–
John Matthews	**30,000**	34,500	–	–	–	–
Matthew Knight	–	169,583	–	15,603	–	20,350
	1,052,750	911,431	**51,059**	49,391	**93,600**	84,386

CEO remuneration 2009-2013

		Basic salary and fees (£)	Taxable benefits (£)	Pension (£)
2014	Mark Lancaster	500,000	38,595	60,000
2013	Mark Lancaster	500,000	32,557	64,036
2012*	Mark Lancaster/John Hunter	308,398	19,030	49,113
2011	John Hunter	291,667	12,364	35,000
2010	Mark Lancaster	300,000	30,798	40,036

*CEO role split: John Hunter - January-October 2012; Mark Lancaster - November-December 2012

Notes to the single figure total remuneration table:

Basic Salary

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.

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.

Salaries in 2014:

Mandy Gradden's fee increased to £45,000 to reflect her role as Chairman of the Audit Committee and member of the Remuneration Committee.

There was no increase in salary in 2014 for the executive directors.

Benefits

The benefits in 2014 were unchanged from the previous year and included: car allowance, private medical insurance and life assurance.

Pension

The company made contributions in 2014 to the personal pensions of the CEO and CFO equivalent to 12% of basic salary.

Bonus

No bonus was paid in 2013 to the executive directors. In 2014 the annual bonus paid to the executives was £682,500 and £154,791 for Mark Lancaster, CEO and Dominic Lavelle, CFO, respectively.

Long Term incentive

This includes long-term incentives where the performance conditions have been achieved in the year, regardless of service conditions.

The LTIP awards granted in 2011 failed to vest in 2014. For minimum vesting, the TSR of the Company had to at least match that of the FTSE 250 (excluding investment trust companies) Index. PriceWaterhouseCoopers measured the Company's TSR performance against the Index and it has not matched the Index's performance. All 2011 LTIP awards, due for release in 2014, lapsed.

Loss of office payments

No loss of office payments were made to past directors during the year. No payments have been made that have not already been included in the single figure of remuneration set out earlier in this report.

The Company's termination policy is shaped by the key principles that:

- Contractual terms will be adhered to, and
- The circumstances of the termination will be taken into account.

Executive Directors' service contracts continue until the agreed retirement date or other date as the Company may agree and carry up to one year's notice maximum.

Bonus (£)		Contractual loss of office payment (£)		Long Term incentive (£)		TOTAL (£)	
2014	2013	2014	2013	2014	2013	2014	2013
–	–	–	–	–	–	**70,000**	57,500
682,500	–	–	–	–	–	**1,281,095**	596,593
154,791	–	–	–	–	–	**480,855**	29,949
–	–	–	–	–	–	**40,000**	40,000
–	–	–	–	–	–	**24,000**	46,130
–	–	–	–	–	–	**26,250**	–
–	–	–	–	–	–	**45,000**	35,000
–	–	–	–	–	–	**37,500**	–
–	–	–	–	–	–	**30,000**	34,500
–	–	–	113,624	–	–		319,160
837,291	–	–	**113,624**	–	–	**2,034,700**	1,158,832

Bonus (£)	Contractual loss of office payment (£)	Long Term incentive (£)	TOTAL (£)
682,500	–	–	**1,281,095**
–	–	–	**596,593**
–	352,266	–	**728,807**
242,574	–	618,887	**1,200,492**
257,727	–	325,090	**953,651**

The Company may terminate an Executive Director's service contract by way of payment in lieu of notice, by continuing employment for the duration of the notice period and/or by assigning a period of garden leave. The current Executive Directors' service contracts also contain a non-compete provision of one year from the date of termination of the agreement.

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

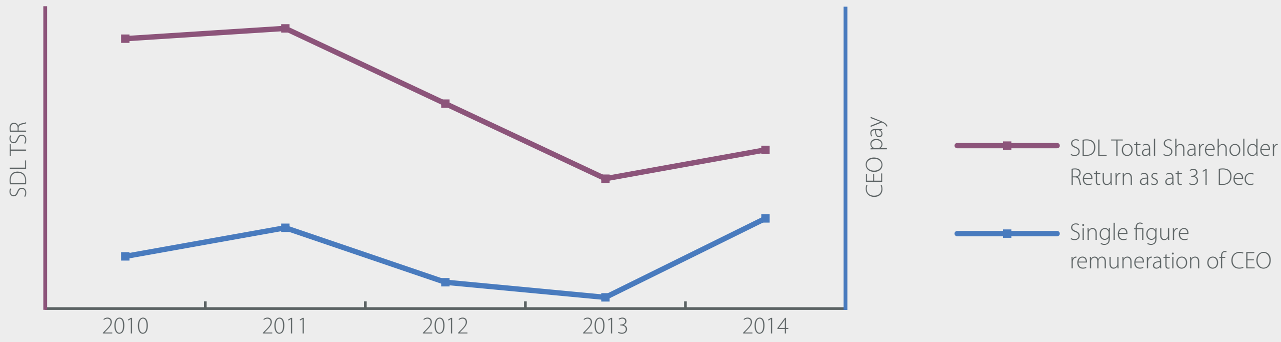
Remuneration arrangements are determined throughout the Group based on the same principles that:

- reward should be sufficient to attract and retain high calibre talent;
- reward should support the delivery of business strategy.

Local management within SDL's devolved structure are empowered to create remuneration packages on an individual business-by-business basis. All employees are entitled to base salary and benefits and may also receive bonus, pension and share awards which vary according to local business and market practice. Therefore, when considering remuneration arrangements for Executive Directors, the Committee takes into account as a matter of course the pay and conditions of colleagues throughout the Company. In particular, the Committee receives regular updates of any major changes and supports the promotion of employment conditions that are commensurate with a good employer, including high standards of health and safety and policies on equal opportunity. Senior managers expected to have the greatest influence on company performance over time are eligible for participation in long-term incentive plans and employees with at least one year's service in the SDL countries (where available and feasible) have the opportunity to become shareholders in the company through our all-employee share plan.

Historical executive pay and Company performance

Information not subject to audit



	2010	2011	2012	2013	2014
Single figure remuneration of CEO	£1.0m	£1.2m	£0.7m	£0.6m	£1.3m
SDL Total Shareholder Return as at 31 Dec	283.84	292.76	227.58	162.53	187.49

Relative importance of spend on pay

Information not subject to audit

Profit Before Tax & Amortisation and one-off items:

2013: £8.2 million

2014: £16.5 million

Returns to shareholders:

2013: nil

2014: ordinary dividends of £2.0 million (2.5 pence per share)

Total employee pay:

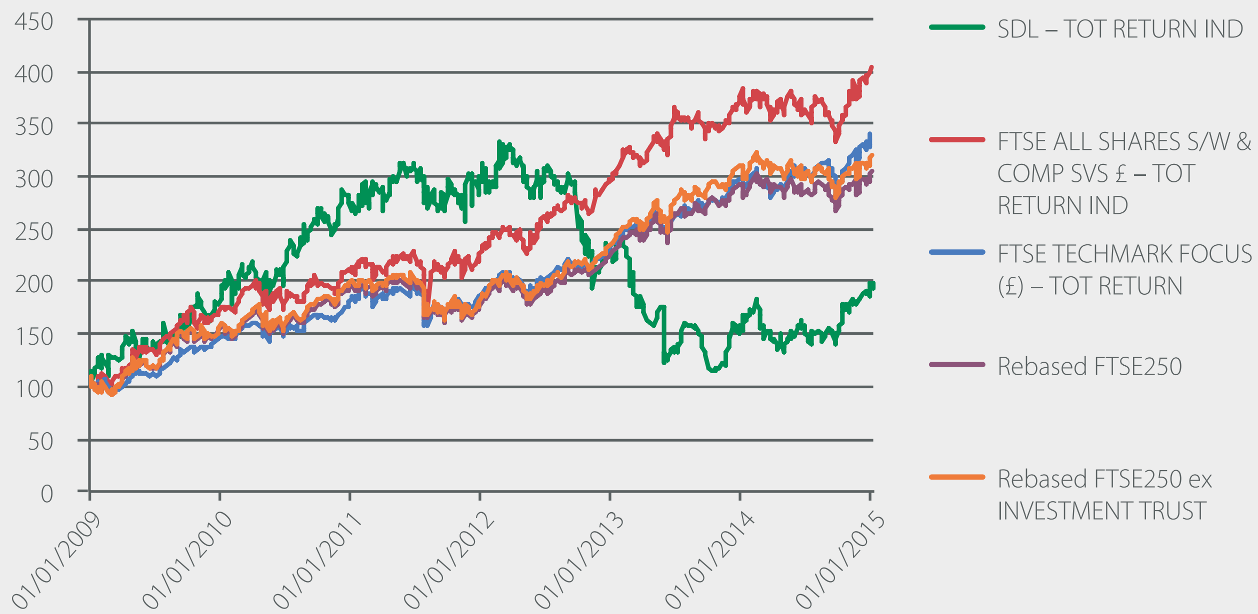
2013: £145.7 million

2014: £141.3 million

TSR

Information not subject to audit

The graph below shows SDL's TSR against the performance of relevant indices over the same period. The indices shown in the graph were chosen as being broad market indices which include companies of a comparable size and complexity to SDL PLC



Directors' shareholdings and share interests

Information subject to audit

The directors and their interests in the share capital of the Group as at 31 December 2014 according to the register of directors' interests are detailed as follows:

Shareholdings (including connected persons)

	At 1 Jan 2014	Purchased during year	Purchase price (p)	Sold during year	At 31 Dec 2014
David Clayton	40,000			–	**40,000**
Chris Batterham	86,895	–	–	–	**86,895**
Joe Campbell	–	–	–	–	–
Glenn Collinson	–	–			–
Mandy Gradden	7,500	–		–	**7,500**
Mark Lancaster	1,201,994	179,193	8,329@329.25p; 24,500@349.8p; 10,050 @ 389p; 71,875 @ 305p; 64,439 @ 327p	–	**1,381,187**
Dominic Lavelle	–	30,000	30,000 @ 340p	–	30,000
Alan McWalter	–	–			–
*John Matthews	27,000	10,000	331.34p	–	**37,000**

*advisor to the Board

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 general meeting.

LTIPS

	Issue price	At 1 Jan 2014	Awarded during the year	Exercised during the year	Achieved during the year	Expired unachieved during the year	At 31 Dec 2014
Mark Lancaster	670(a)	67,164	–	–	–	67,164	0
Mark Lancaster	748(b)	60,160	–	–	–	–	60,160
Mark Lancaster	420(c)	178,571	–	–	–	–	178,571
Mark Lancaster	333.5(d)	–	224,887	–	–	–	224,887
Dominic Lavelle	333.5(d)	–	83,958	–	–	–	83,958

(a) awarded 18 May 2011, expire 18 May 2021
(b) awarded 10 April 2012, expire 10 April 2022
(c) awarded 17 April 2013, expire 17 April 2023
(d) awarded 7 April 2014, expire 7 April 2024

In 2014 a total of 1,149,547 LTIP shares were awarded to executive directors and senior managers with a performance period of three years from date of grant.

Of this total Mark Lancaster and Dominic Lavelle were awarded 224,887 and 83,958 respectively.

Conditional Award

	Issue price	At 1 Jan 2014	Awarded during the year	Exercised during the year	Expired unachieved during the year	At 31 Dec 2014
Mark Lancaster	636p	141,510	–	141,510	–	–

Exceptional and one-off conditional award to Mark Lancaster on 17 January 2011 vesting over three years.
Vested in full as at 17 January 2014 and exercised in May 2014.
Mark Lancaster retained 64,439 shares, selling sufficient to fund the exercise costs and related income tax liabilities.

Options

	Exercise price (p)	At 1 Jan 2014	Awarded during the year	Exercised during the year	Expired unachieved during the year	At 31 Dec 2014
Mark Lancaster	119.33p	200,000	–	200,000	–	–

Mark Lancaster exercised his options in May 2014 and retained 71,875, selling sufficient shares to fund the exercise costs and related income tax liabilities.

Sharesave

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.

Indemnity

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.

Consultations with shareholders and AGM voting

At the Annual General Meeting held on 29 April 2014, all resolutions were passed on a show of hands. Proxy votes lodged in respect of directors' remuneration were as follows:

Resolution	Votes for	% for	Votes Against	% against	Discretion	Total Votes cast	Votes Witheld
Approve remuneration policy	62,922,657	97.99	1,282,928	2.00	490	**64,206,075**	2,942
Adopt remuneration report	63,547,893	98.97	657,692	1.02	490	**64,206,075**	2,942

Annual meetings take place between the Chairman of the Committee and the Chairman of the Group and major shareholders and their representative bodies. The views expressed in these meetings help the Committee in determining how to implement the Company's remuneration policy.

Directors' Report

Introduction

The Directors of SDL PLC present their report together with the audited consolidated financial statements for the year ended 31 December 2014.

Other information which forms part of the directors' report can be found below and in the following sections:

- Board of Directors
- Corporate Governance
- Financial Statements

The Board are required to present a fair review of the business during the year 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 Company

SDL PLC is the ultimate parent company of the SDL Group which operates internationally. SDL PLC is registered in England and Wales with the registered number 2675207. The principal activities of the Group and its subsidiaries are described in the Strategic report on pages 3-22.

Directors

Biographies

Biographies of the current Directors of the Company are given on pages 24-25. The table on page 29 shows Directors who served during the year to 31 December 2014.

Powers

The powers of the Directors are set out in the Company's Articles of Association, plus those granted by special resolution at the AGM dated 29 April 2014 governing shares issuance.

Interests in contracts

As at the date of this report, there is no contract or arrangement with the Company or any of its subsidiaries that is significant in relation to the business of the Group as a whole in which a Director of the Company is materially interested.

Indemnification

The Company has entered into deeds on indemnity with each of its current 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. These indemnities are Qualifying Third-Party indemnity provisions as defined in section 234 of the Companies Act 2006 and copies are available for inspection at the registered office of the Company during business hours.

Remuneration

Particulars of directors' remuneration are shown in the directors' remuneration report. Details of service contracts and how a change of control will affect the service contracts of the executive directors are also summarised within the directors' remuneration report. Executive directors' contracts do not provide for extended notice periods or compensation in the event of termination or a change of control.

Annual General Meeting

Our 2015 AGM will be held at 9:30am on Monday 27th April 2015 at Globe House, Clivemont Road, Maidenhead, Berkshire SL6 7DY. The notice of the 2015 AGM will be made available to shareholders and will also be published on the Group website www.sdl.com /About / Investor Relations / AGM.

The Directors consider that all the AGM resolutions are in the best interests of the Company and they recommend unanimously that all shareholders vote in favour, as they intend to do in respect of their own shareholdings.

Results and Dividends

The Group's Consolidated Income Statement appears on page 56 and note 3 shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's profit (PBTA and one-off costs) for the year was £16.5 million (2013: £8.2 million). The Directors are recommending that shareholders declare a final dividend of 2.5 pence per ordinary share in respect of the year ended 31 December 2014. If approved, the final dividend will be paid on 5 June 2015 to shareholders on the Register of Members at close of business on 1 May 2015.

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. Enquiries included a review of performance in 2014, 2015 annual plans, a review of working capital including the liquidity position, financial covenant compliance and a review of current cash levels.

As at 31 December 2014, the Company had drawn £9 million of its £30 million facility with Royal Bank of Scotland. £6m has been repaid in early 2015 and current forecasts show no funding requirement beyond September 2015.

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 financial statements.

Employee Share Schemes & The SDL Employee Benefit Trust (the Trust)

The Company operates a number of employee share schemes. Under one of those schemes, ordinary shares may be held by trustees on behalf of employees. Employees are not entitled to exercise directly any voting or other control rights in respect of any shares held by such trustees. The trustees may not vote any shares in which they hold the beneficial interest. However, where the trustees are holding shares in a nominee capacity, the trustees must act on any voting instructions received from the underlying beneficial owner of such shares.

Details of issues and purchases of the Company's shares made in the year to 31 December 2014 by the Trust are to be found in note 19 to the accounts. Since 31 December 2014 no further shares have been purchased by the Trust to satisfy employee awards under The SDL Retention Share Plan.

All employees who meet the necessary service criteria in Canada, the Netherlands, the UK and the USA including executive directors, may participate in the Company's UK or International Sharesave plan.

Employees also hold outstanding share options under discretionary schemes, see note 19 to the accounts.

All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Share Capital and Control

As at 10 March 2015 the Company's issued share capital comprised a single class of ordinary shares. Details of the structure of the Company's capital and the rights and obligations attached to those shares are given in note 18 to the accounts.

Each share carries the right to one vote at general meetings of the Company and ordinary rights to dividends. The rights and obligations attached to the shares are more fully set out in the Articles of Association of the Company. There are no restrictions on the transfer of securities of the Company other than the following:

- Certain restrictions may, from time to time, be imposed by laws and regulations (such as insider trading laws).
- Pursuant to the Listing Rules of the Financial Conduct Authority, the Company requires certain employees to seek the Company's permission to deal in the Company's ordinary shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares and/or voting rights. There are no shareholdings which carry special rights relating to control of the Company. 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 37.

Employment policy

Information regarding our employees and their involvement within the business, including the Company's policy towards discrimination and diversity can be found on page 16. Our employment policies are developed to reflect local legal, cultural and employment requirements.

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.

Substantial shareholdings

All persons with a significant holding, along with the value of that holding are given in the table below (share price at 18 February 2015; 458 pence).

	Holding at 17 February 2015	% of issued share capital	Value of Holding (£'000)
Toscafund Asset Management	9,920,947	12.25	£45,438
Schroder Investment Management	8,305,750	10.25	£38,040
Fidelity Worldwide Investment	8,068,809	9.96	£36,955
Artemis Investment Management	7,624,910	9.41	£34,922
RGM Capital	5,511,579	6.80	£25,243
Baillie Gifford	3,652,481	4.51	£16,728
Herald Investment Managers	3,351,269	4.14	£15,349
Aberforth Partners	2,455,683	3.03	£11,247

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 21.

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 2014 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 2014, the Company had an average of 37 days purchases outstanding in trade creditors (2013: 29 days).

Political and Charitable Donations

During the current and prior year no political donations were made. Charitable donations amounting to £3,838 were made to external charities and £163,720 was donated to The SDL Foundation.

Internal controls

There has been a process for identifying, evaluating and managing significant risks throughout the year to 31 December 2014 and up to the date of the approval of the financial statements for that year. In respect of our financial reporting process and the process for preparing our consolidated accounts, management monitors the processes underpinning the Group's financial reporting systems through regular reporting and review. Data for consolidation into the Group's financial statements are reviewed by management to ensure that they reflect a true and fair view of the Group's results in compliance with applicable accounting policies. Further information is included within the Corporate Governance section of the Annual Report.

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.

Disclosure of relevant audit information

So far as the directors who are in office at the time of the approval of this report are aware there is no relevant audit information (namely, information needed by the Company's auditors in connection with the preparation of their auditors' report) of which the auditor is unaware. 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.

Corporate Governance Compliance Statement

The Board considers that SDL PLC complied with all provisions of the Code throughout the year to 31 December 2014 and the Governance report together with the Directors' Remuneration report explains how.

COMPANY NUMBER

The Company number of SDL PLC is 2675207.

By order of the Board

Dominic Lavelle

Director

10 March 2015

Statement of Directors' Responsibilities in Respect of the Annual Report and the 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.

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 judgements 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 report

We confirm that to the best of our 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.

We 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 group's position and performance, business model and strategy.

Dominic Lavelle

Director

10 March 2015

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 2014 set out on pages 56 to 97. 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 2014 and of the Group's profit 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 (£113.6 million)

Refer to page 33 (Audit Committee statement), page 65 (accounting policy) and pages 66 to 67 (financial disclosures).

- The risk – Technology revenue includes licenced software and related services. Where software is sold as a perpetual licence, revenue is typically recognised on delivery. Support and maintenance and other services generally form part of the contract and the revenue is recognised as the services are performed. In these cases 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 which requires estimation of the fair value of the delivered and undelivered elements of the contract. 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 licenced software and related service contracts contributing the highest levels of 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 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 checked cash receipts against contract revenue recognised to determine whether any late payment indicated whether the allocation and recognition of revenue was incorrect. Where amounts remain unpaid, we evaluated 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 and intangibles (£202.6 million carrying value)

Refer to page 33 (Audit Committee statement), page 65 (accounting policy) and page 76 (financial disclosures).

- The risk – The carrying value of goodwill and intangibles is a significant part of the net assets of the group. Following the recent deterioration in the trading performance of the Technology business in 2013 and whilst the subsequent recovery in the business is ongoing there remains a risk of impairment of goodwill and intangibles. Goodwill and intangibles are 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, particularly in determining revenue growth rates, 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 process upon which the forecasts are based and testing 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 projected economic growth, cost inflation and discount rates. In particular, we challenged the growth assumptions applied to revenue over the next five years of the cash flow model. In addition, we performed break-even analysis on the assumptions and considered 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 any 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 2014 (£3.9 million)

Refer to page 33 (Audit Committee statement), page 66 (accounting policy) and pages 69 to 71 (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 complexities and judgements required in forecasting 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 previously 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 and 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.

  We used reports prepared independently for the Group by external tax experts to assist us in assessing the availability of losses in jurisdictions (most notably the US) where there are potential restrictions. We performed an assessment of the independence and competence of the external experts engaged by the Group to produce the reports. 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, determined with reference to a benchmark of Group profit before taxation and one-off items, averaged over the last three years in order to take into account volatility in profits over this period, of £12.3 million, of which materiality represents 6.1%.

We report to the Audit Committee all corrected and uncorrected identified misstatements exceeding £40,000, in addition to other identified misstatements that warrant reporting on qualitative grounds.

Of the Group's 88 reporting components, we subjected 9 to audits for group reporting purposes and 7 to specified risk-focused audit procedures. The latter were not individually significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the group's results:

	Number of Components	Group Revenue	Group Profit before Tax [(1)]	Group Total Assets
Full-scope Audit	9	60%	53%	82%
Specified Risk-focused procedures	7	19%	14%	8%
Total	**16**	**79%**	**67%**	**90%**

[(1)] % of the total profits and losses that made up group profit before tax

The remaining 21% of total group revenue, 33% of group profit before tax and 9% of total group assets is represented by 72 reporting components, none of which individually represented more than 4% of total group revenue, group profit before tax or total group assets.

For the remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materiality, which ranged from £100,000 to £600,000, having regard to the mix of size and risk profile of the Group across the components. The work on 12 of the 16 components was performed by component auditors and the rest by the Group audit team.

The Group audit team visited seven components in the UK and the USA. Telephone conference meetings were also held with these component auditors and all others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

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 section of the annual report describing the work of the Audit Committee on pages 31 to 34 does not appropriately address matters communicated by us to the Audit 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 49, in relation to going concern; and
- the part of the Corporate Governance Statement on page 23 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 52, 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/auditscopeukco2014a, 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.

Simon Haydn-Jones (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

10 March 2015

Consolidated Income Statement

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Sale of goods		**50.6**	49.6
Rendering of services		**209.8**	216.5
Revenue	3	**260.4**	266.1
Cost of sales		**(112.9)**	(120.1)
Gross profit		**147.5**	146.0
Administrative expenses	4	**(137.8)**	(170.0)
Operating profit/(loss)		**9.7**	(24.0)
Operating profit before tax, amortisation and one-off costs		**16.8**	8.6
Amortisation of intangible assets		**(7.1)**	(7.5)
One-off costs	4	**–**	(25.1)
Operating profit/(loss)	4	**9.7**	(24.0)
Finance income	4	**0.1**	0.1
Finance costs	4	**(0.4)**	(0.5)
Profit/(loss) before tax		**9.4**	(24.4)
Profit before tax, amortisation and one-off costs		**16.5**	8.2
Amortisation of intangible assets		**(7.1)**	(7.5)
One-off costs	4	**–**	(25.1)
Profit/(loss) before tax	4	**9.4**	(24.4)
Tax expense	5	**(2.8)**	(3.5)
Profit/(loss) for the year attributable to equity holders of the parent		**6.6**	(27.9)
Earnings per ordinary share – basic (pence)	7	**8.03**	-34.78
Earnings per ordinary share – diluted (pence)	7	**7.97**	-34.78

Adjusted earnings per ordinary share (basic and diluted) are shown in note 7.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Profit/(loss) for the period		**6.6**	(27.9)
Currency translation differences on foreign operations		**(5.3)**	(0.1)
Currency translation differences on foreign currency quasi equity loans to foreign subsidiaries		**4.1**	(0.3)
Income tax charge on currency translation differences on foreign currency quasi equity loans to foreign subsidiaries	5	**(1.1)**	(0.1)
Other comprehensive income		**(2.3)**	(0.5)
Total comprehensive income		**4.3**	(28.4)

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 2014

	Notes	2014 £m	2013 £m
Assets			
Non current assets			
Property, plant and equipment	8	**7.4**	9.6
Intangible assets	9	**202.6**	209.0
Deferred tax asset	5	**5.3**	3.7
Rent deposits		**1.7**	1.6
		217.0	223.9
Current assets			
Trade and other receivables	12	**71.7**	70.9
Cash and cash equivalents	13	**22.1**	18.2
		93.8	89.1
Total assets		**310.8**	313.0
Current liabilities			
Trade and other payables	14	**(84.0)**	(79.9)
Loans and overdraft	16	**(9.0)**	(20.0)
Current tax liabilities		**(6.7)**	(4.8)
Provisions	17	**(2.8)**	(2.3)
		(102.5)	(107.0)
Non current liabilities			
Other payables	15	**(1.3)**	(2.6)
Deferred tax liability	5	**(4.4)**	(6.0)
Provisions	17	**(0.5)**	(0.9)
		(6.2)	(9.5)
Total liabilities		**(108.7)**	(116.5)
Net assets		**202.1**	196.5
Equity			
Share capital	18	**0.8**	0.8
Share premium account		**97.9**	97.4
Retained earnings		**90.9**	83.5
Foreign exchange differences		**12.5**	14.8
Total equity		**202.1**	196.5

Approved by the Board of directors on 10 March 2015

M Lancaster
Director

D Lavelle
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

	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 5)	–	–	0.2	–	0.2
Arising on share issues*	–	0.6	–	–	0.6
Dividend paid*	–	–	(4.9)	–	(4.9)
Share based payments*	–	–	1.2	–	1.2
At 31 December 2013	0.8	97.4	83.5	14.8	196.5

	Share Capital £m	Share Premium Account £m	Retained Earnings £m	Foreign Exchange Differences £m	Total £m
At 1 January 2014	0.8	97.4	83.5	14.8	196.5
Profit for the period	–	–	6.6	–	6.6
Other comprehensive income	–	–	–	(2.3)	(2.3)
Total comprehensive income	–	–	6.6	(2.3)	4.3
Arising on share issues*	–	0.5	–	–	0.5
Share based payments*	–	–	0.8	–	0.8
At 31 December 2014	**0.8**	**97.9**	**90.9**	**12.5**	**202.1**

* These amounts relate to transactions with owners of the Company recognised directly in equity.
The amounts above are attributable to equity holders of the parent company.

Consolidated Statement of Cash Flows

at 31 December 2014

	Notes	2014 £m	2013 £m
Profit/(loss) before tax		**9.4**	(24.4)
Depreciation of property, plant and equipment	8	**4.7**	5.1
Amortisation of intangible assets	9	**7.1**	7.5
Impairment losses on intangible assets	9	**–**	20.4
Finance income		**(0.1)**	(0.1)
Finance costs		**0.4**	0.5
Share based payments		**0.8**	1.2
Increase in trade and other receivables		**(2.0)**	(2.4)
Increase in trade and other payables		**1.9**	8.0
Cash generated from operations		**22.2**	15.8
Income tax paid		**(3.9)**	(10.3)
Net cash flows from operating activities		**18.3**	5.5
Cash flows from investing activities			
Payments to acquire property, plant & equipment		**(2.4)**	(6.1)
Receipts from sale of property, plant & equipment		**–**	0.1
Payments to acquire subsidiaries		**(0.3)**	(1.4)
Net cash acquired with subsidiaries		**–**	0.2
Interest received		**0.1**	0.1
Net cash flows from investing activities		**(2.6)**	(7.1)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**0.4**	0.2
Proceeds from borrowings		**–**	20.0
Repayment of borrowings		**(11.0)**	(22.2)
Dividends paid		**–**	(4.9)
Repayment of capital leases		**(0.3)**	(0.4)
Interest paid		**(0.4)**	(0.5)
Net cash flows from financing activities		**(11.3)**	(7.8)
Increase/(decrease) in cash and cash equivalents		**4.4**	(9.4)
Movement in cash and cash equivalents			
Cash and cash equivalents at the start of year		**18.2**	28.5
Increase/(decrease) in cash and cash equivalents		**4.4**	(9.4)
Effect of exchange rates on cash and cash equivalents		**(0.5)**	(0.9)
Net cash and cash equivalents at end of year	20	**22.1**	18.2

Notes to the Accounts

for the year ended 31 December 2014

1 Corporate information

The consolidated financial statements of SDL plc (the 'Group') for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 10 March 2015. 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 3.

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 86 to 97. 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. Enquiries included a review of performance in 2014, 2015 annual plans, a review of working capital including the liquidity position, financial covenant compliance and a review of current cash levels. As at 31 December 2014, the Company had drawn £9 million of its £30 million facility with Royal Bank of Scotland. £6 million has been repaid in early 2015 and current forecasts show no funding requirement beyond September 2015. 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 Financial Statements.

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 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 Separate Financial Statements (2011)

IAS 28 Investments in Associates and Joint Ventures (2011)

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, in the case of acquisitions, from the date control is transferred to the Group. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 deferred or contingent consideration, this will be provided in the accounts at the fair value. Any changes to the fair value of deferred or contingent consideration are recognised in profit or loss. 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. 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 and provision for impairment. 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. Intellectual property 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 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 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 based 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 delivery of the goods.

  Revenue on software licenses and upgrades is recognised on delivery, 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 borrowings 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

Where 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 assets.

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 recognised 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

The aggregate benefit of incentives is recognised as a credit to the income statement 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 asset 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.

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, on a cumulative straight line basis over the term from the date of grant to 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 number of awards that, in the opinion of the directors of the Group at that date, 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 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 capitalised 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 capitalisation 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 capitalised 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.

One-off costs

One-off costs are disclosed and described separately in the financial statements where it is necessary to do so to provide a better understanding of the financial performance of the Group. They are material items of expense or income that have been shown separately by virtue of their significant nature or amount. One-off items include significant costs of restructuring, refinancing and other costs that are considered to be non-recurring.

Segment reporting

Segment results that are reported to the Chief Operating Decision Maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Following the completion of the Group's 2013 reorganisation, the Group has also revisited its cost allocation methodologies during the year to better represent how shared costs and services are consumed by each segment. The impact of this restatement has been to reallocate costs of £7.0m between segments. In accordance with IFRS8, the operating segments for the comparative period have been restated.

New standards and interpretations not applied

IASB and IFRIC have issued a number of amendments as part of the Annual Improvement Cycle with an effective date of 1 February 2015. The Directors do not anticipate that the adoption of these amendments 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

Technology revenue includes licenced software and related services. Where software is sold as a perpetual licence, revenue is typically recognised on delivery. Support and maintenance and other services generally form part of the contract and the revenue is recognised as the services are performed. In these cases often significant judgement is required in allocating the consideration receivable to each element of the contract, which requires estimation of the fair value of the delivered and undelivered elements of the contract. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period.

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 11). 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.

Further details on taxes are disclosed in Note 5.

Other estimates and assumptions

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 19.

3 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. Following the completion of the Group's 2013 reorganisation. The Group has two reportable operating segments as follows:

- The Language Services segment is the provision of a translation service for customer's multilingual content in multiple languages.
- The Technology segment is the sale of enterprise, desktop and statistical machine translation technologies, content management campaign management, social media monitoring and marketing analytic technologies together with associated consultancy and other services.

The Chief Operating Decision Maker monitors the results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment prior to charges for tax and amortisation.

Following the Group's organisation, the Group has also revisited its cost allocation methodologies during the year to better represent how shared costs and services are consumed by each segment. In accordance with IFRS 8, the operating segments for the comparative period have been restated.

Year ended 31 December 2014	External Revenue £m	Total Revenue £m	Depreciation £m	Segment profit/(loss) before taxation and amortisation £m
Language Services	146.8	146.8	1.6	**26.3**
Technology	113.6	113.6	3.1	**(9.8)**
Sub total	260.4	260.4	4.7	**16.5**
Amortisation				**(7.1)**
Profit before taxation				**9.4**

Year ended 31 December 2013 - restated	External Revenue £m	Total Revenue £m	Depreciation £m	Segment profit /(loss) before taxation and amortisation £m
Language Services	150.5	150.5	1.7	24.6
Technology	115.6	115.6	3.4	(16.4)
Sub total	266.1	266.1	5.1	8.2
Historic litigation costs	–	–	–	(1.4)
Restructuring costs	–	–	–	(3.3)
Impairment charge (Note 4)	–	–	–	(20.4)
Total	266.1	266.1	5.1	(16.9)
Amortisation				(7.5)
Loss before taxation				(24.4)

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

	2014 £m	2013 £m
UK	**70.0**	63.9
USA	**72.1**	77.2
Republic of Ireland	**22.1**	24.7
Netherlands	**20.9**	21.0
Belgium	**17.2**	16.1
Germany	**15.2**	15.4
Canada	**10.9**	11.8
Rest of World	**32.0**	36.0
	260.4	266.1

A Geographical analysis of external revenues by destination is provided in the Strategic Review on page 9.

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

	2014 £m	2013 £m
UK	**172.6**	173.8
USA	**33.7**	40.9
Rest of World	**5.4**	5.5
	211.7	220.2

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.

4 Other revenue and expenses

Group operating profit is stated after charging/(crediting):	2014 £m	2013 £m
Included in administrative expenses:		
Research and development expenditure	**28.1**	28.8
Bad debt charge	**0.3**	0.8
Depreciation of property, plant and equipment – owned assets	**4.5**	4.9
Depreciation of property, plant and equipment – leased assets	**0.2**	0.2
Amortisation of intangible assets	**7.1**	7.5
Operating lease rentals for plant and machinery	**0.5**	0.6
Operating lease rentals for land and buildings	**6.8**	6.9
Net foreign exchange gains	**(2.2)**	–
Share based payment charge	**1.4**	1.2

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 balances.

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 2014 (2013: £nil) with the primary criteria for non-capitalisation being technical and commercial feasibility achieved late in the development cycle for new product releases.

Auditor's remuneration	2014 £m	2013 £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	**0.2**	0.1
Other services	**0.1**	0.1

Staff costs	2014 £m	2013 £m
Wages and salaries	**120.1**	124.6
Social security costs	**15.5**	15.5
Pension costs (included in administrative expenses)	**4.3**	4.4
Expense of share based payments	**1.4**	1.2
	141.3	145.7

The Company operates a personal pension scheme for qualifying employees. Other Group companies contribute to defined contribution type arrangements for their qualifying members. The pension cost charge for the year represents contributions payable by the group to these schemes and amounted to £4.3 million (2013: £4.4 million).

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

	2014 Number	2013 Number
Administration and sales	**1,201**	1,214
Production	**2,044**	1,963
	3,245	3,177

Finance costs	2014 £m	2013 £m
Bank loans	**0.3**	0.3
Other interest paid	**0.1**	0.2
	0.4	0.5

Finance income

	2014 £m	2013 £m
Bank interest receivable	**0.1**	0.1

One-off costs

	2014 £m	2013 £m
Historic litigation costs	**(0.3)**	1.4
Onerous lease	–	0.4
Redundancy costs	**0.5**	2.5
Impairment charge	–	20.4
Other	**(0.2)**	0.4
	–	25.1

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 11).

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

5 Income tax

(a) Income tax on profit:

Consolidated income statement	2014 £m	2013 £m
Current taxation		
UK Income tax charge		
Current tax on income for the period	**0.9**	0.7
Adjustments in respect of prior periods	**0.1**	0.2
	1.0	0.9
Foreign tax		
Current tax on income for the period	**5.0**	4.1
Adjustments in respect of prior periods	**(0.1)**	0.3
	4.9	4.4
Total current taxation	**5.9**	5.3
Deferred income taxation		
Origination and reversal of temporary differences	**(3.1)**	(1.8)
Total deferred income tax	**(3.1)**	(1.8)
Tax expense (see (b) below)	**2.8**	3.5

Consolidated statement of other comprehensive income	2014 £m	2013 £m
Current taxation		
UK Income tax credit		
Income tax charge on currency translation differences on foreign currency quasi equity loans to foreign subsidiaries	**1.1**	0.1
Total current taxation	**1.1**	0.1

A tax credit in respect of share based compensation for current taxation of £nil (2013: £nil) 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 £nil (2013: £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 21.5% (2013: 23.25%). The differences are reconciled below:

Consolidated income statement	2014 £m	2013 £m
Profit/ (loss) on ordinary activities before tax	9.4	(24.4)
Profit/ (loss) on ordinary activities at standard rate of tax in the UK 21.5% (2013: 23.25%)	2.0	(5.7)
Expenses not deductible for tax purposes	0.4	0.9
Impairment of goodwill	–	4.7
Adjustments in respect of previous years	0.1	0.5
Capital allowances for the period in excess of depreciation	–	(0.5)
Recognition of tax losses brought forward previously not recognised	(2.1)	–
Utilisation of tax losses brought forward previously not recognised	(1.6)	(1.0)
Current tax losses not available for offset	3.6	5.2
Effect of overseas tax rates	0.3	0.2
Other	0.1	(0.8)
Tax expense (see (a) above)	2.8	3.5

(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 2014 £m	Unrecognised 2014 £m	Recognised 2013 £m	Unrecognised 2013 £m
Depreciation in advance of capital allowances	0.5	–	0.9	–
Other short-term temporary differences	(3.5)	–	(5.2)	–
Tax losses	3.9	6.7	2.0	2.7
Net deferred income tax asset/(liability)	0.9	6.7	(2.3)	2.7

The Group has unrecognised tax losses in net terms of £6.7 million (2013: £2.7 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 £29.6 million (2013: £37.6 million).

Included within other short term temporary differences are deferred tax assets in respect of potential Schedule 23 tax benefits of £0.5 million (2013: £0.4 million) and a deferred tax liability in respect of the amortisation of certain intangible assets acquired of £4.2 million (2013: £5.6 million).

The Group has recognised deferred tax assets on losses of £3.9 million (2013: £2.0 million), which is based on forecast future taxable profits in certain tax jurisdictions.

At 31 December 2014, the net deferred income tax position is represented by a deferred income tax asset of £5.3 million (2013: £3.7 million) and a deferred income tax liability of £4.4 million (2013: £6.0 million).

(e) Reconciliation of movement on deferred tax liability:

	2014 £m	2013 £m
At 1 January	**6.0**	8.3
Retranslation of opening balances	–	0.1
Deferred tax liability arising on intangible assets acquired	–	0.2
Reversal of temporary differences arising on the amortisation of intangibles	**(1.4)**	(1.7)
Other temporary differences arising in the period	**(0.2)**	–
Change in rate from 23% to 20%	–	(0.9)
Deferred tax liability at 31 December	**4.4**	6.0

(f) Reconciliation of movement on deferred tax asset:

	2014 £m	2013 £m
At 1 January	**3.7**	4.4
Retranslation of opening balances	**0.1**	(0.1)
Temporary differences arising in the period	**1.5**	(0.7)
Deferred income tax asset arising on share based payments recorded in statement of changes in equity	–	0.2
Other temporary differences arising in the period	–	(0.1)
Deferred tax asset at 31 December	**5.3**	3.7

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 £5.3 million (2013: £3.7 million) and liability of £4.4 million at 31 December 2014 (2013: £6.0 million) have been calculated based on the rate of 20% which was substantively enacted at the balance sheet date or local tax rates as applicable in overseas territories.

6 Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2013 was nil (Year ended 31 December 2012: 6.1 pence per share)	–	4.9

A final dividend for the year ended 31 December 2014 of 2.5 pence per share will be proposed at the Annual General Meeting and has not been included as a liability in the financial statements.

7 Earnings per share

The calculation of basic earnings per ordinary share is based on a profit after tax of £6.6 million (2013: loss of £27.9 million) and 80,758,772 (2013: 80,283,053) 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 19. For 2014, the diluted ordinary shares were based on 81,373,392 ordinary shares that included 614,620 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:

	2014 £m	2013 £m
Profit / (loss) for the year	**6.6**	(27.9)
One-off costs	–	25.1
Amortisation of intangible fixed assets	**7.1**	7.5
Less: tax benefit associated with the amortisation of intangible fixed assets and one-off costs	**(1.4)**	(2.6)
Adjusted profit for the year	**12.3**	2.1

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.

	2014 No.	2013 No.
Weighted average number of ordinary shares for basic earnings per share	**80,758,772**	80,283,053
Effect of dilution resulting from share options	**614,620**	939,379
Weighted average number of ordinary shares adjusted for the effect of dilution	**81,373,392**	81,222,432

	2014	2013
Adjusted earnings per ordinary share – basic (pence)	**15.10**	2.57
Adjusted earnings per ordinary share – diluted (pence)	**14.98**	2.54

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.

8 Property, plant and equipment

	Leasehold Improvements £m	Computer Equipment £m	Fixtures & Fittings £m	Motor Vehicles £m	Total £m
Cost:					
At 1 January 2013	1.8	17.4	3.3	0.1	22.6
Additions	0.2	5.4	0.3	–	5.9
Acquisition of subsidiaries	–	(0.2)	–	–	(0.2)
Currency adjustment	(0.1)	(0.3)	–	–	(0.4)
At 1 January 2014	1.9	22.3	3.6	0.1	27.9
Additions	0.2	1.7	0.5	–	2.4
Disposals	(0.1)	(2.5)	(0.2)	(0.1)	(2.9)
Currency adjustment	–	0.5	(0.1)	–	0.4
At 31 December 2014	**2.0**	**22.0**	**3.8**	–	**27.8**
Accumulated depreciation:					
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 1 January 2014	(1.2)	(14.3)	(2.7)	(0.1)	(18.3)
Provided during the year	(0.2)	(4.2)	(0.3)	–	(4.7)
Disposals	0.1	2.5	0.2	0.1	2.9
Currency adjustment	–	(0.4)	0.1	–	(0.3)
At 31 December 2014	**(1.3)**	**(16.4)**	**(2.7)**	–	**(20.4)**
Net book value					
At 31 December 2014	**0.7**	**5.6**	**1.1**	–	**7.4**
At 1 January 2014	0.7	8.0	0.9	–	9.6

Included in property, plant and equipment are assets held under finance lease of £0.1 million at 31 December 2014 (2013: £0.2 million).

9 Intangible assets

	Customer Relationships £m	Intellectual Property £m	Goodwill £m	Total £m
Cost:				
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 1 January 2014	20.1	60.6	213.5	294.2
Currency adjustment	0.1	–	0.6	0.7
At 31 December 2014	**20.2**	**60.6**	**214.1**	**294.9**
Amortisation:				
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)
At 1 January 2014	(12.3)	(40.3)	(32.6)	(85.2)
Provided during the year	(2.3)	(4.8)	–	(7.1)
Currency adjustment	0.1	(0.1)	–	–
At 31 December 2014	**(14.5)**	**(45.2)**	**(32.6)**	**(92.3)**
Net book value:				
At 31 December 2014	**5.7**	**15.4**	**181.5**	**202.6**
At 1 January 2014	7.8	20.3	180.9	209.0

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 11).

10 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 Technology
SDL International Belgium NV	Belgium	Ordinary	100%	Language Services
SDL Software Technology (Shenzhen) Co Ltd	China	Ordinary	100%	Language Services and Technology
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 Technology
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%	Technology
SDL Enterprise Technologies Inc	United States of America	Ordinary	100%	Technology
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%	Technology
Held indirectly:				
SDL Passolo GmbH	Germany	Ordinary	100%	Technology
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
SDL doo Ljubljana	Slovenia	Ordinary	100%	Language Services
SDL CZ sro	Czech Republic	Ordinary	100%	Language Services
SDL Traduceri SRL	Romania	Ordinary	100%	Language Services

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

The proportion of voting rights held as at 31 December 2014 is as shown above. There have been no changes during 2014.

11 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 two CGUs for testing; Language Services and Technology. The prior year CGUs of Language Technology and Content and Analytic Technologies are incorporated within the Technology 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. The valuation is performed on a value-in-use basis.

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

The recoverable amounts have been determined using the detailed projections from the 2015 annual plan projected for a five year period and subsequently into perpetuity, with a discount rate applied. A 10 year forecast period was used for Content and Analytic Technologies CGU in 2013 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 10.4% applied to Language Services (2013: 10.6%) and 11.1% to Technology (2013: 11.6%). These reflect the relative maturity of the businesses and in aggregate approximate a group cost of capital of 10.8% for 2014 (2013: 11.1%). Pre tax discount rates range from 12.9% to 13.4% (2013: 12.5% to 13.5%). Budgets have 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 2015 Group annual plan.

This methodology places strong emphasis on early year cash flows and revenue growth assumptions in evaluating impairment. 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 Technology (2013: 2% and 3% respectively). Differential growth rates have been applied to the different cash-generating units beyond the budget period. These are 5% (2013: 5%) for Language Services and 9% (2013: 3–9%) for Technology.

Following a disappointing trading year in 2013 and the completion of the 2013 impairment review, the group determined that the carrying value of goodwill in its Content and Analytic Technologies CGU was impaired by £20.4 million. This amount was recognised in the income statement in 2013 (see note 4).

Carrying amount of goodwill allocated to cash-generating units:	**2014 £m**	2013 £m
Language Services	**21.0**	21.0
Technology	**160.5**	159.9
	181.5	180.9

Sensitivity to changes in assumptions

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

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 Technology CGU to be equal to the carrying amount.

	Change required for the carrying amount to equal recoverable amount 2014
Discount Rate	**1.4%**
Perpetuity growth rate	**(2.0)%**
Revenue growth (CAGR for years 2-5)	**(1.7)%**

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.

Next impairment test

The next impairment tests will be performed at the 2015 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.

12 Trade and other receivables (current)

	2014 £m	2013 £m
Trade receivables	**52.8**	53.0
Corporation tax	**2.3**	3.5
Prepayments and accrued income	**16.6**	14.4
	71.7	70.9

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 2014, trade receivables at nominal value of £1.4 million (2013: £2.0 million) were impaired and provided for.

Movements in the provision for impairment of receivables were as follows:

	£m
At 1 January 2013	1.7
Charge for the year	0.8
Utilised in the year	(0.5)
Currency adjustment	–
At 31 December 2013	2.0
Charge for the year	0.2
Utilised in the year	(0.8)
Currency adjustment	–
At 31 December 2014	**1.4**

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

			Past due but not impaired		
	Total £m	Not past due nor impaired £m	<30 days £m	30-60 days £m	>60 days £m
2014	**52.8**	**42.7**	**6.2**	**1.6**	**2.3**
2013	53.0	44.7	6.6	1.3	0.4

13 Cash and cash equivalents

	2014 £m	2013 £m
Cash at bank and in hand	**22.1**	18.2

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 £22.1 million (2013: £18.2 million). At 31 December 2014, the Group had available £21 million (2013: £10 million) of undrawn committed borrowing facilities. For the purposes of the cash flow statement, cash and cash equivalents comprise the amounts shown above.

14 Trade and other payables (current)

	2014 £m	2013 £m
Trade payables	**7.1**	6.3
Other taxes and social security costs	**3.7**	3.9
Other payables	**5.9**	6.0
Accruals and deferred income	**67.3**	63.7
	84.0	79.9

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.

15 Trade and other payables (non-current)

	2014 £m	2013 £m
Other payables	**0.1**	0.6
Deferred income	**1.2**	2.0
	1.3	2.6

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 2014 £m	Interest 2014 £m	Present value of minimum lease payments 2014 £m	Future minimum lease payments 2013 £m	Interest 2013 £m	Present value of minimum lease payments 2013 £m
Within one year	**0.4**	–	**0.4**	0.2	–	0.2
After one year but not more than five years	**0.1**	–	**0.1**	0.2	–	0.2
	0.5	–	**0.5**	0.4	–	0.4

16 Loans and overdraft

	2014 £m	2013 £m
Current instalments due on bank loans	**9.0**	20.0

During the year, the Group repaid £11 million on the Group's £30 million facility.

The loans are secured on the net assets of certain Group subsidiaries. The £30 million loan facility is repayable in three and six month instalments, under a revolving facility that expires on 28 September 2015. The loan bears interest at LIBOR+ margin, the margin varying between 1.3% and 1.9% depending on the ratio of the Group gross borrowing to earnings before interest, tax, depreciation and amortisation.

17 Provisions

	Property Leases £m	Other £m	Total £m
At 1 January 2014	1.2	2.0	3.2
Arising during the year	–	1.0	1.0
Released during the year	–	(0.5)	(0.5)
Utilised	(0.4)	–	(0.4)
At 31 December 2014	**0.8**	**2.5**	**3.3**
Current 2014	**0.3**	**2.5**	**2.8**
Non-current 2014	**0.5**	–	**0.5**
	0.8	**2.5**	**3.3**
Current 2013	0.6	1.7	2.3
Non-current 2013	0.6	0.3	0.9
	1.2	2.0	3.2

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 1 to 7 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 £0.9 million (2013: £1.3 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 £1.4 million (2013: £1.7 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.

18 Share capital

Allotted, called up and fully paid	**2014 millions**	2013 millions	**2014 £m**	2013 £m
Ordinary shares of 1p each				
At 1 January	**80.4**	80.2	**0.8**	0.8
Issued on exercise of share options	**0.3**	-	**-**	-
Issued on exercise of LTIPS	**0.2**	-	**-**	-
Issued as payment of deferred consideration	**0.1**	0.2	**-**	-
At 31 December	**81.0**	80.4	**0.8**	0.8

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

1. 294,368 ordinary shares of 1 pence 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 £369,846.
2. 74,447 ordinary shares of 1 pence each were allotted under the SDL LTIP 2006 Scheme and 141,510 ordinary shares were allotted under the conditional award granted in January 2011.
3. 1,106 ordinary shares of 1 pence each were allotted under the SDL Save As You Earn Schemes at a price of 316 pence per share for an aggregate consideration of £3,495.
4. In March 2014, 51,724 ordinary shares of 1 pence 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.

19 Share-based payment plans

Included within administrative expenses is a charge of £1.4 million relating to the Group's employee share schemes (2013: charge of £1.2 million). Details of the Group's employee share schemes are set out below.

SDL Share Option Scheme

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

	2014 No.	**2014 WAEP**	2013 No.	2013 WAEP
Outstanding at the beginning of the year	**1,175,018**	**£3.83**	1,025,737	£3,84
Granted during the year	**227,500**	**£3.34**	353,331	£4.20
Forfeited during the year	**(224,476)**	**£5.76**	(180,050)	£4.89
Exercised during the year	**(294,368)**	**£1.26**	(24,000)	£1.88
Expired during the year	**–**	**–**	–	–
Outstanding at the end of the year	**883,674**	**£4.03**	1,175,018	£3.83
Exercisable at 31 December	**248,175**	**£2.74**	554,993	£1.95

The weighted average share price at the date of exercise for the options exercised is £3.11 (2013: £3.90).

For the share options outstanding as at 31 December 2014, the weighted average remaining contractual life is 6.98 years (2013: 5.76 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:

	2014	2013
Weighted average share price (pence)	**335**	420
Weighted average fair value at grant date (pence)	**90**	67
Expected volatility	**38%**	30%
Expected option life	**3 years**	3 years
Expected dividends	**0%**	2%
Risk-free interest rate	**1.11%**	0.3%

The range of exercise prices for options outstanding at the end of the year was £1.19 - £7.48 (2013: £1.17-£7.48).

Exercise price	Date of Grant	Exercise Period	2014 Number	2013 Number
£1.01 - £1.50	**02/04/04-04/04/05**	10 years after grant date	**7,500**	291,618
£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	**211,775**	234,475
£3.01 - £3.50	**07/04/14**	10 years after grant date	**216,500**	–
£3.51 - £4.00	**23/05/07**	10 years after grant date	**5,200**	5,200
£4.01 - £4.50	**17/04/13**	10 years after grant date	**298,343**	336,899
£4.51 - £5.00	**12/04/10**	10 years after grant date	–	–
£5.01 - £5.50	**10/09/10**	10 years after grant date	–	–
£6.51 - £7.00	**18/05/11**	10 years after grant date	–	146,331
£7.01 - £7.50	**10/04/12**	10 years after grant date	**120,656**	136,795
Total			**883,674**	1,175,018

SDL Long Term Incentive Plan

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 7 April 2014, 308,845 shares were granted under the 2011 Plan to the Executive Directors based on a market price of £3.335, with a performance period of three years from date of grant. Senior management employees received awards totalling 840,702 throughout the year.

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:

	2014	2013
Expected volatility	**39%**	31%
Weighted average fair value at grant date (pence)	**221**	102
Expected life	**3 years**	3 years
Expected dividends	**0%**	2%
Risk-free interest rate	**1.0%**	0.3%

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	**1,913,838**	**£0.01**	1,710,108	£0.01
Granted during the year	**1,149,547**	**£0.01**	1,193,530	£0.01
Exercised during the year	**(74,454)**	**£0.01**	–	–
Forfeited during the year	**(870,882)**	**£0.01**	(989,800)	£0.01
Outstanding at the end of the year	**2,118,049**	**£0.01**	1,913,838	£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

In recognition of the fact that there will be three consecutive years in which the LTIP and Option awards are unlikely to meet the performance criteria required to vest, the Board approved, in 2013, a share-based discretionary award which has been made to a small targeted group of executives (excluding Executive Directors). Awards are based on a percentage of salary and vest in equal tranches over two years, any unvested portion of a tranche lapses. 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. The Remuneration Committee has the discretion to settle any awards that vest in cash or via shares.

The RSP was not approved by shareholders and therefore any shares required to satisfy vesting are either purchased by the Employee Benefit Trust or cash settled. The funding of the trust is by way of a loan to the trustees.

On 17 April 2013, 1,137,026 shares were granted under the RSP to a small group of senior management excluding Executive Directors. Further grants of 52,000 were made on 18 March 2014. After taking performance criteria and lapses into account, 157,000 shares, the first of two equal tranches, vested in April 2014. The second and final tranche is due to vest on the second anniversary of the grant date i.e. April 2015.

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:

	2014	2013
Expected volatility	**43.9%**	30.2%
Weighted average fair value at grant date (pence)	**343**	392
Expected life	**1 year**	1.5 years
Expected dividends	**0%**	1.5%
Risk-free interest rate	**0.22%**	0.18%

	2014 No.	2013 No.
Outstanding at the beginning of the year	**678,196**	–
Granted during the year	**52,000**	1,137,026
Exercised during the year	**(135,500)**	–
Forfeited during the year	**(426,196)**	(458,830)
Outstanding at the end of the year	**168,500**	678,196
Exercisable at 31 December	**21,500**	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

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 2014, 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.

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

	2014 No.	2013 No.
Outstanding at the beginning of the year	**391,447**	296,407
Granted during the year	**432,141**	323,215
Exercised during the year	**(1,106)**	(8,563)
Forfeited during the year	**(444,496)**	(219,612)
Outstanding at the end of the year	**377,986**	391,447
Exercisable at 31 December	**Nil**	Nil

For the SAYE shares outstanding as at 31 December 2014, the weighted average remaining contractual life is 2.18 years (2013: 1.82 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:

	2014	2013
Weighted average share price (pence)	**317**	324
Expected volatility	**37%**	36%
Expected option life	**1.6 years**	1.4 years
Expected dividends	**0%**	1%
Risk-free interest rate	**1.27%**	0.5%

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.

20 Additional cash flow information

Analysis of Group net debt:	1 January 2014 £m	Cash flow £m	Cash acquired on acquisition £m	Exchange differences £m	31 December 2014 £m
Cash and cash equivalents	18.2	4.4	–	(0.5)	**22.1**
Loans	(20.0)	11.0	–	–	**(9.0)**
	(1.8)	15.4	–	(0.5)	**13.1**

	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)

21 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	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Within one year	**4.3**	5.2	**0.2**	0.6	**4.5**	5.8
After one year but not more than five years	**11.9**	15.9	**0.2**	1.2	**12.1**	17.1
More than five years	**0.5**	2.6	–	–	**0.5**	2.6
	16.7	23.7	**0.4**	1.8	**17.1**	25.5

The future minimum rentals receivable under non-cancellable operating leases as at 31 December 2014 were £0.2 million (2013: £0.2 million).

22 Related party disclosures

Compensation of key management personnel of the Group	2014 £m	2013 £m
Short term employee benefits	**2.2**	1.1
Post employment benefits	**0.1**	0.1
Total compensation paid to key management personnel	**2.3**	1.2

Full details of the Directors' remuneration is included in the Directors' Remuneration Report on pages 37 to 48.

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.

23 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 16.

Interest Rate Risk: Net debt has decreased from £1.8 million in 2013 to £13.1 million net cash in 2014. Borrowings amounted to £9.0 million at December 2014 (see note 16) which bears interest at LIBOR +1.3%. 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)	**2014 £m**	2013 £m
+ 1 %	**(0.1)**	(0.2)
– 1 %	**0.1**	0.2

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

Profit before tax gain/(loss)	**2014 £m**	2013 £m
+ 1 %	–	–
– 1 %	–	–

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

Profit before tax gain/(loss)	**2014 £m**	2013 £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 2014, the Group had net cash of £13.1 million which comprised of cash balances of £22.1 million and loans of £9.0 million. Underpinning this philosophy are processes to manage operating cash flow, with a focus on approvals policy for significant cash outlays and credit control. The Group's existing loan facility expires on 28 September 2015.

Foreign Currency Risk: A significant amount of business is done with customers in both the USA and Continental Europe with approximately 42% of total invoicing done in US Dollar and 31% 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 2014, 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 percent change in the US Dollar exchange rate:

Profit before tax gain/(loss)	**2014 £m**	2013 £m
+ 1 %	**(0.8)**	(0.5)
– 1 %	**0.8**	0.5
Statement of Financial Position* increase/(decrease) in net assets		
+ 1 %	**(0.7)**	(0.6)
– 1 %	**0.7**	0.6

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

Profit before tax gain/(loss)	**2014 £m**	2013 £m
+ 1 %	–	(0.1)
– 1 %	–	0.1
Statement of Financial Position* increase/(decrease) in net assets		
+ 1 %	**(1.3)**	(1.1)
– 1 %	**1.3**	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 2014, 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 continuing difficult 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. The Board is recommending a final dividend in respect of the year end ended 31 December 2014 of 2.5 pence per share.

24 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 2014

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	**22.1**	–	–	–	–	–	**22.1**
Borrowings	**(9.0)**	–	–	–	–	–	**(9.0)**
Net cash	**13.1**	–	–	–	–	–	**13.1**

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)

Maturity of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014:

Floating rate	Less than 12 months £m	Over 12 months £m	Total £m
Trade and other payables	**43.5**	**0.1**	**43.6**
Short term loans	**9.0**	**–**	**9.0**
Provisions	**2.8**	**0.5**	**3.3**
	55.3	**0.6**	**55.9**

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

	Less than 12 months £m	Over 12 months £m	Total £m
Trade and other payables	43.3	0.6	43.9
Short term loans	20.0	–	20.0
Provisions	2.3	0.9	3.2
	65.6	1.5	67.1

The above tables exclude deferred income.

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

The Group maintains a £30 million facility with Royal Bank of Scotland which expires on 28 September 2015. The amount drawn at 31 December 2014 was £9 million (2013: £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 2014 (2013: None).

The interest rate risk on the borrowings at 31 December 2014 is directly linked to the 3 month and 6 month LIBOR and is set out in note 16. The interest rates that the Group would pay under the facilities are linked directly to these LIBOR rates.

25 Events after the statement of financial position date

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

Company Balance Sheet

at 31 December 2014

	Notes	2014 £m	2013 £m
Fixed assets			
Tangible assets	2	**0.8**	1.0
Investments in subsidiaries	3	**199.9**	198.7
Rent deposits		**0.1**	0.1
		200.8	199.8
Current assets			
Debtors: amounts falling due within one year	4	**58.5**	52.2
Debtors: amounts falling due after more than one year	4	**10.1**	8.7
Cash at bank and in hand		**3.6**	0.5
		72.2	61.4
Current liabilities			
Creditors: amounts falling due within one year	5	**(107.2)**	(95.7)
Interest bearing Loans and Borrowings	6	**(9.0)**	(20.0)
		(116.2)	(115.7)
Net current liabilities		**(44.0)**	(54.3)
Total assets less current liabilities		**156.8**	145.5
Creditors: amounts falling due after more than one year	7	**(25.3)**	(26.6)
Provisions for liabilities and charges	8	**(2.8)**	(2.2)
		128.7	116.7
Capital and reserves			
Called up share capital	9,10	**0.8**	0.8
Share premium account	10	**97.9**	97.4
Profit and loss account	10	**30.0**	18.5
Total equity		**128.7**	116.7

Approved by the Board of directors on 10 March 2015

M Lancaster
Director

D Lavelle
Director

Notes to the Accounts

for the year ended 31 December 2014

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 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 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 delivery of the goods.

  Revenue on software licenses and upgrades is recognised on delivery, 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

In accordance with 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 less provision for impairment.

Investments denominated in foreign currency are recorded using the rate of exchange at the date of acquisition. Investments are 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 income streams (income 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.

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.

New UK GAAP

In the company financial statements for the year ending 31 December 2015, the directors of the Company expect to adopt either the FRS 101 reduced disclosure framework or FRS 102 applying the disclosure exemptions in accordance with paragraphs 1.8 to 1.12.

2 Tangible fixed assets

	Leasehold Improvements £m	Computer Equipment £m	Fixtures & Fittings £m	Total £m
Cost				
At 1 January 2014	0.6	1.4	0.4	2.4
Currency adjustment	–	–	–	–
Additions	–	0.2	–	0.2
At 31 December 2014	**0.6**	**1.6**	**0.4**	**2.6**
Depreciation				
At 1 January 2014	(0.5)	(0.6)	(0.3)	(1.4)
Currency adjustment	–	–	–	–
Provided during the year	–	(0.4)	–	(0.4)
At 31 December 2014	**(0.5)**	**(1.0)**	**(0.3)**	**(1.8)**
Net book value				
At 31 December 2014	**0.1**	**0.6**	**0.1**	**0.8**
At 31 December 2013	0.1	0.8	0.1	1.0

The net book value of assets held under finance leases is £nil as at 31 December 2014 (2013: £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 10 of the Group financial statements.

	£m
Cost	
At 1 January 2014	219.1
Additions	1.2
At 31 December 2014	**220.3**
Impairment	
At 1 January 2014	(20.4)
Charge for the year	–
At 31 December 2014	**(20.4)**
Net book value	
At 31 December 2014	**199.9**
At 31 December 2013	198.7

Additions in the year represent share options granted to employees of subsidiary companies.

4 Debtors

Debtors: Amounts falling due within one year	2014 £m	2013 £m
Trade debtors	**7.2**	6.1
Amounts owed by Group undertakings	**45.0**	41.8
Corporation Tax	**0.8**	0.8
Deferred income tax asset	**1.2**	1.2
Prepayments and accrued income	**4.3**	2.3
	58.5	52.2

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	2014 £m	2013 £m
Amounts owed by Group undertakings	**10.1**	8.7

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 2014 £m	Unrecognised 2014 £m	Recognised 2013 £m	Unrecognised 2013 £m
Depreciation in advance of capital allowances	**0.6**	–	0.6	–
Other short-term temporary differences	**0.1**	–	0.1	–
Share based payments	**0.5**	–	0.5	–
Tax losses	–	–	–	0.1
Net deferred income tax asset	**1.2**	–	1.2	0.1

Reconciliation of movement on deferred tax asset:

	2014 £m	2013 £m
At 1 January	**1.2**	0.8
Temporary differences arising in the period	–	0.4
Deferred tax asset at 31 December	**1.2**	1.2

The Company has tax losses in net terms of £nil million (2013: £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	2014 £m	2013 £m
Trade creditors	**1.9**	1.4
Amounts owed to Group undertakings	**95.8**	86.6
Corporation tax	**0.7**	-
Other taxes and social security costs	**0.3**	0.5
Other creditors	**0.5**	0.5
Accruals and deferred income	**8.0**	6.7
	107.2	95.7

6 Interest bearing loans and borrowings

	2014 £m	2013 £m
Current instalments due on bank loans	**9.0**	20.0

During the year, the Company repaid £11 million on the Group's £30 million facility.

The loans are secured on the net assets of certain Group subsidiaries. The £30 million loan facility is repayable in three and six month instalments, under a revolving facility that expires on 28 September 2015. The loan bears interest at LIBOR+ margin, the margin varying between 1.3% and 1.9% depending on the ratio of the Group gross borrowing to earnings before interest, tax, depreciation and amortisation.

7 Creditors

Creditors: amounts falling due after more than one year	2014 £m	2013 £m
Amounts owed to Group undertakings	**24.8**	26.1
Other creditors	**0.5**	0.5
	25.3	26.6

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

	2014 £m	2013 £m
Property leases	**0.3**	0.4
Other	**2.5**	1.8
	2.8	2.2

Movement in provisions:

	Provision 1 January 2014 £m	Arising during the year £m	Released during the year £m	Utilised during the year £m	Provision 31 December 2014 £m
Property leases	0.4	–	–	(0.1)	**0.3**
Other	1.8	1.0	(0.3)	–	**2.5**
	2.2	1.0	(0.3)	(0.1)	**2.8**

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 (2013: £0.4 million).

Other provisions

Other provisions include a number of employee and legal amounts. Included in the above is a provision for £1.4 million (2013: £1.7 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	**2014 millions**	2013 millions	**2014 £m**	2013 £m
Ordinary shares of 1p each				
At 1 January	**80.4**	80.2	**0.8**	0.8
Issued on exercise of share options	**0.3**	–	–	–
Issued on exercise of LTIPS	**0.2**	–	–	–
Issued as payment of deferred consideration	**0.1**	0.2	–	–
At 31 December	**81.0**	80.4	**0.8**	0.8

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

1. 294,368 ordinary shares of 1 pence 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 £369,846.

2. 74,447 ordinary shares of 1 pence each were allotted under the SDL LTIP 2006 Scheme and 141,510 ordinary shares were allotted under the conditional award granted in January 2011.

3. 1,106 ordinary shares of 1 pence each were allotted under the SDL Save As You Earn Schemes at a price of 316 pence per share for an aggregate consideration of £3,495.

4. In March 2014, 51,724 ordinary shares of 1 pence 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 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 1 January 2014	0.8	97.4	18.5	116.7
Profit for the period	–	–	10.2	10.2
Currency translation differences on net investments	–	–	0.1	0.1
Arising on share issues	–	0.5	–	0.5
Share based payments	–	–	1.2	1.2
At 31 December 2014	**0.8**	**97.9**	**30.0**	**128.7**

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 2014 £m**	**Other 2014 £m**	**Total 2014 £m**	Land and Buildings 2013 £m	Other 2013 £m	Total 2013 £m
Within one year	–	–	–	–	–	–
After one year but not more than five years	–	–	–	–	–	–
More than five years	**1.0**	–	**1.0**	1.0	–	1.0
	1.0	–	**1.0**	1.0	–	1.0

12 Share based payment plans

Included within administrative expenses is a charge of £0.4 million relating to the Company's employee share schemes (2013: charge of £1.2 million). Details of the Company's employee share schemes are set out below.

SDL Share Option Scheme

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

	2014 No.	**2014 WAEP**	2013 No.	2013 WAEP
Outstanding at the beginning of the year	**1,175,018**	**£3.83**	1,025,737	£3.84
Granted during the year	**227,500**	**£3.34**	353,331	£4.20
Forfeited during the year	**(224,476)**	**£5.76**	(180,050)	£4.89
Exercised during the year	**(294,368)**	**£1.26**	(24,000)	£1.88
Outstanding at the end of the year	**883,674**	**£4.03**	1,175,018	£3.83
Exercisable at 31 December	**248,715**	**£2.74**	554,993	£1.95

The weighted average share price at the date of exercise for the options exercised is £3.11 (2013: £3.90).

For the share options outstanding as at 31 December 2014, the weighted average remaining contractual life is 6.98 years (2013: 5.76 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:

	2014	2013
Weighted average share price (pence)	**335**	420
Weighted average fair value at grant date (pence)	**90**	67
Expected volatility	**38%**	30%
Expected option life	**3 years**	3 years
Expected dividends	**0%**	2%
Risk-free interest rate	**1.11%**	0.3%

The range of exercise prices for options outstanding at the end of the year was £1.19 – £7.48 (2013: £1.17-£7.48).

Exercise price	**Date of Grant**	Exercise Period	**2014 Number**	2013 Number
£1.01 - £1.50	**02/04/04-04/04/05**	10 years after grant date	**7,500**	291,618
£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	**211,775**	234,475

Exercise price	Date of Grant	Exercise Period	2014 Number	2013 Number
£3.01 - £3.50	07/04/14	10 years after grant date	216,500	–
£3.51 - £4.00	23/05/07	10 years after grant date	5,200	5,200
£4.01 - £4.50	17/04/13	10 years after grant date	298,343	336,899
£4.51 - £5.00	12/04/10	10 years after grant date	–	–
£5.01 - £5.50	10/09/10	10 years after grant date	–	–
£6.51 - £7.00	18/05/11	10 years after grant date	–	146,331
£7.01 - £7.50	10/04/12	10 years after grant date	120,656	136,795
Total			883,674	1,175,018

SDL Long Term Incentive Plan

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 7 April 2014, 308,845 shares were granted under the 2011 Plan to the Executive Directors based on a market price of £3.335, with a performance period of three years from date of grant. Senior management employees received awards totalling 840,702 throughout the year.

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:

	2014	2013
Expected volatility	39%	31%
Weighted average fair value at grant date (pence)	221	102
Expected life	3 years	3 years
Expected dividends	0%	2%
Risk-free interest rate	1.0%	0.3%

	2014 No.	2014 WAEP	2013 No.	2013 WAEP
Outstanding at the beginning of the year	1,913,838	£0.01	1,710,108	£0.01
Granted during the year	1,149,547	£0.01	1,193,530	£0.01
Exercised during the year	(74,454)	£0.01	–	–
Forfeited during the year	(870,882)	£0.01	(989,800)	£0.01
Outstanding at the end of the year	2,118,049	£0.01	1,913,838	£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 Scheme Award

In recognition of the fact that there will be three consecutive years in which the LTIP and Option awards are unlikely to meet the performance criteria required to vest, the Board approved, in 2013, a share-based discretionary award which has been made to a small targeted group of executives (excluding Executive Directors). Awards are based on a percentage of salary and vest in equal tranches over two years, any unvested portion of a tranche lapses. 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. The Remuneration Committee has the discretion to settle any awards that vest in cash or via shares.

The RSP was not approved by shareholders and therefore any shares required to satisfy vesting are either purchased by the Employee Benefit Trust or cash settled. The funding of the trust is by way of a loan to the trustees.

On 17 April 2013, 1,137,026 shares were granted under the RSP to a small group of senior management excluding Executive Directors. Further grants of 52,000 were made on 18 March 2014. After taking performance criteria and lapses into account, 157,000 shares, the first of two equal tranches, vested in April 2014. The second and final tranche is due to vest on the second anniversary of the grant date i.e. April 2015.

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:

	2014	2013
Expected volatility	**43.9%**	30.2%
Weighted average fair value at grant date (pence)	**343**	392
Expected life	**1 year**	1.5 years
Expected dividends	**0%**	1.5%
Risk-free interest rate	**0.22%**	0.18%

	2014 No.	2013 No.
Outstanding at the beginning of the year	**678,196**	–
Granted during the year	**52,000**	1,137,026
Exercised during the year	**(135,500)**	–
Forfeited during the year	**(426,196)**	(458,830)
Outstanding at the end of the year	**168,500**	678,196
Exercisable at 31 December	**21,500**	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

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 2014, 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.

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

	2014 No.	2013 No.
Outstanding at the beginning of the year	**391,447**	296,407
Granted during the year	**432,141**	323,215
Exercised during the year	**(1,106)**	(8,563)
Forfeited during the year	**(444,496)**	(219,612)
Outstanding at the end of the year	**377, 986**	391,447
Exercisable at 31 December	**Nil**	Nil

For the SAYE shares outstanding as at 31 December 2014, the weighted average remaining contractual life is 2.18 years (2013: 1.82 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:

	2014	2013
Weighted average share price (pence)	**317**	324
Expected volatility	**37%**	36%
Expected option life	**1.6 years**	1.4 years
Expected dividends	**0%**	1.5%
Risk-free interest rate	**1.27%**	0.5%

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 profit dealt with in the financial statements of the parent Company is £10.2 million (2013: loss of £24.9 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 2014 £m**	IFRS 2013 £m	IFRS 2012 £m	IFRS 2011 £m	IFRS 2010 £m
Turnover (notes 1, 2, 3 and 4)	**260.4**	266.1	269.3	229.0	203.5
Growth in turnover	**–2%**	–1%	18%	13%	18%
Operating profit before one-offs, depreciation and amortisation	**21.5**	**13.3**	**41.0**	**42.5**	**37.74**
Operating profit / (loss)	**9.7**	(24.0)	27.7	33.5	28.6
Profit/(loss) before tax	**9.4**	(24.4)	27.4	33.8	28.8
Profit / (loss) after tax	**6.6**	(27.9)	20.9	25.7	22.0
Fixed assets	**210.0**	218.6	243.3	161.6	165.6
Cash and cash equivalents	**22.1**	18.2	28.5	70.4	46.6
Net current assets / (liabilities)	**(8.7)**	(17.9)	(10.3)	58.9	32.6
Total assets less current liabilities	**208.3**	206.0	239.0	226.3	205.5
Equity interests	**202.1**	196.5	227.8	217.8	195.5
Average number of employees (thousand)	**3.2**	3.2	2.8	2.3	2.1
Earnings per share – basic (adjusted for movements in capital) (notes 1, 2, 3 and 4)	**8.03p**	-34.78p	26.12p	32.72p	28.39p
Adjusted earnings per share – basic (before one-offs and amortisation)	**15.10p**	2.57p	35.41p	38.23p	34.70p

Notes:

(1) 2010 – Acquisition of Xopus BV and Language Weaver Inc

(2) 2011 – Acquisition of Calamares Holding BV Group

(3) 2012 – Acquisition of Alterian plc Group

(4) 2013 – Acquisition of Bemoko Consulting Limited

Company Information

Directors

David Clayton	(Chairman)
Mark Lancaster	(Chief Executive Officer)
Dominic Lavelle	(Chief Financial Officer)
Chris Batterham	
Mandy Gradden	
Alan McWalter	
Glenn Collinson	

Secretary

Pamela Pickering

Auditor

KPMG Audit Plc
15 Canada Square
London
E14 5GL

Bankers

National Westminster Bank Plc
Abbey Gardens
4 Abbey Street
Reading
RG1 3BA

Solicitors

DLA Piper
3 Noble Street
London
EC2V 7EE

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0LA

Stockbrokers

Investec Henderson Crosthwaite Corporate Finance
(a division of Investec Bank (UK) Limited)
2 Gresham Street
London
EC2V 7QP

N+1 Singer Capital Markets Ltd
One Hanover Street
London
W1S 1YZ

Registered office

Globe House
Clivemont Road
Maidenhead
Berkshire
SL6 7DY

Registered in England and Wales Number 2675207
www.sdl.com

SDL (LSE: SDL) allows companies to optimize their customers' experience across the entire buyer journey. Through its web content management, analytics, social intelligence, campaign management and translation services, SDL helps organizations leverage data-driven insights to understand what their customers want, orchestrate relevant content and communications, and deliver engaging and contextual experiences across languages, cultures, channels and devices.

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.

SDL plc
Globe House
Clivemont Road
Maidenhead
Berkshire SL6 7DY

t +44 (0) 1628 410100
f +44 (0) 1628 410150

www.sdl.com

Registered in England and Wales Number 2675207