



Annual Report  
2015

# 2015

has been an important  
year in the evolution  
of our company.



**SDLC** 

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# Executive Chairman's Review

2015 has been an important year in the evolution of our company.



## 2015 performance

2015 has been an important year in the evolution of our company. Our Language Services business has further consolidated its position as one of the leading players in the Global Localisation market. Indeed, our profitability has reached record levels as a result of our excellent customer satisfaction and our exceptional quality. Repeat business is at very high levels and our business model, utilising our unique network of local offices and people, is enabling us to deliver extremely strong, profitable, growth.

Since the acquisition of Alterian plc in early 2012 we have been investing in both technology and sales and marketing in order to access the global market for Customer Experience Management, CXM. Whilst considerable progress has been made we have been disappointed in the overall results. This was due to SDL's focus of investing in and selling consolidated integrated platforms whereas the market continues to favour the purchase of specialist point solutions. As a result, our CXM strategy has failed to gain traction, resulting in a significant decline in new technology bookings in our CXM business, with a commensurate increase in losses from these products.

### Operational review

Following my appointment as Executive Chairman in October 2015 the Board has conducted a thorough operational review of the Group's activities. We have concluded that the business should refocus around a language centric strategy, helping brands to manage, translate and deliver localised content on a global scale.

The Board also concluded that we have a number of significant areas of strength and opportunity which will form the building blocks of this future strategy:

- 1 Our in-house translators working in our network office structure across 38 countries are valued by clients because direct access to this in-house, in-country organisation enhances quality. It also enables local management of any freelancer usage, meaning tighter control and lower cost to SDL.
- 2 We have many global enterprise Language Services and Technology customers across diverse end-markets with high levels of recurring revenues. Our high penetration and repeat business of our Translation Management System strategically embeds SDL within our customer workflow processes and our Translation Productivity platform is used by over 225,000 translators and localisation project managers worldwide.
- 3 Our brand is best known for its language related offers with a reputation for high-quality and both Trados and Tridion are strong brands within their market segments.
- 4 Our global content technologies build upon our language DNA and provide scalable and secure solutions which are unique in their ability to deal with the complexity associated with managing and delivering content on a global scale.
- 5 Our loyal staff who embrace change and are willing to respond to challenges and seize opportunities.

To deliver substantial growth in our chosen markets it is important that we concentrate our investments in these areas.

As a result of our decision to refocus the business around a language centric strategy, we have concluded that some of our existing businesses may be more successful under different ownership. Consequently there are a number of good businesses within SDL that serve growth markets but are non-core to our future strategy. These businesses, Fredhopper, Social Intelligence, and Campaign & Analytics, will be sold.

### Dividend

The financial results for the year and confidence in the future have enabled the Board to recommend a full year dividend of 3.1 pence, an increase of 24% on last year.

### Our board

In October 2015, our founder and CEO, Mark Lancaster, stepped down from the Board. Since founding the business in 1992, Mark and his team led the Company through an extraordinary period of growth to a global market leadership position. The Board would like to thank Mark for his vision and leadership in building the business.

As a result, I was appointed to the interim role of Executive Chairman whilst a thorough search takes place for a new CEO.

CEO succession is a critical issue and the Nomination Committee is currently working with an international Executive search firm to find the candidate with the right talents, experience and skills required to lead SDL's future growth.

### Outlook

In conclusion, we are excited by the growth potential for SDL. Global market expansion coupled with the explosion of digital content and growing consumer expectations provide the opportunity for SDL to become a more strategic vendor to our customers. We must ensure that SDL fully maximises this opportunity to become a trusted advisor for brands and businesses looking to expand their global reach in today's digital world. In the short term we will continue to drive efficiency within our business in order to invest in the platforms we need for future growth.

As a result, the Board remain confident of another year of profit growth.

David Clayton  
Executive Chairman

#### Revenue

**£266.9 million**

(2014: £260.4 million at reported currency)

#### Profit before tax, amortisation and one-offs

**£20.6 million**

(2014: £16.5 million)

#### Adjusted Earnings per share of

**16.13 pence**

(2014: 15.10 pence)

#### Dividend per share of

**3.1 pence**

(2014: 2.5 pence per share)

# Our Markets



Perhaps the most important conclusion that we drew from the operational review, was to reinforce both the attractiveness of the global Localization market and the strength of SDL's position within it. Our strategic focus for the past few years has been on building out our Customer Experience Management technology solutions and focussing our language business to deliver enhanced profitability rather than growth. As a result we have under-invested in and under-delivered on our core language opportunity.

The continuing growth in digital content and the need to deliver this rapidly across international markets provides significant opportunity for technology driven language solutions that can accelerate global content delivery.

With our unique combination of language services and translation technology, coupled with our global content technologies, we see huge opportunity for SDL to manage, translate and deliver localised content on a global scale and capitalise on what is a large and growing global market.

## Language Services

The language services market remains a diverse and attractive market with high potential opportunity for growth and development. The market was estimated in 2015 to have been worth \$38bn; with a current estimated addressable market for SDL of c. £4bn. The language services market is currently growing at 6-8% per annum and is estimated to grow to \$43bn by the end of 2019.

SDL offers a full range of language services including translation, media services, iMT (Machine Translation ("MT") post-editing), global Search Engine Optimisation and software localisation and testing. These are delivered by 1000+ in-house, in-country translation experts and powered by our language technology.

**There are a number of key factors that continue to drive expansion and the need for innovation in the language services market:**

### 1. Global market expansion

The removal of global trade barriers, technological advancements and an expanding digital economy is leading organisations in all sectors to expand their international operations and open up new global markets. This has led to an increase in the need for new and existing language support.

### 2. Digital content explosion

The rise of new digital content and disciplines such as multimedia use, digital and content marketing, online documentation, self-serve help and support drives a growing volume of content needing to be delivered to international audiences.

### 3. Growing consumer expectations

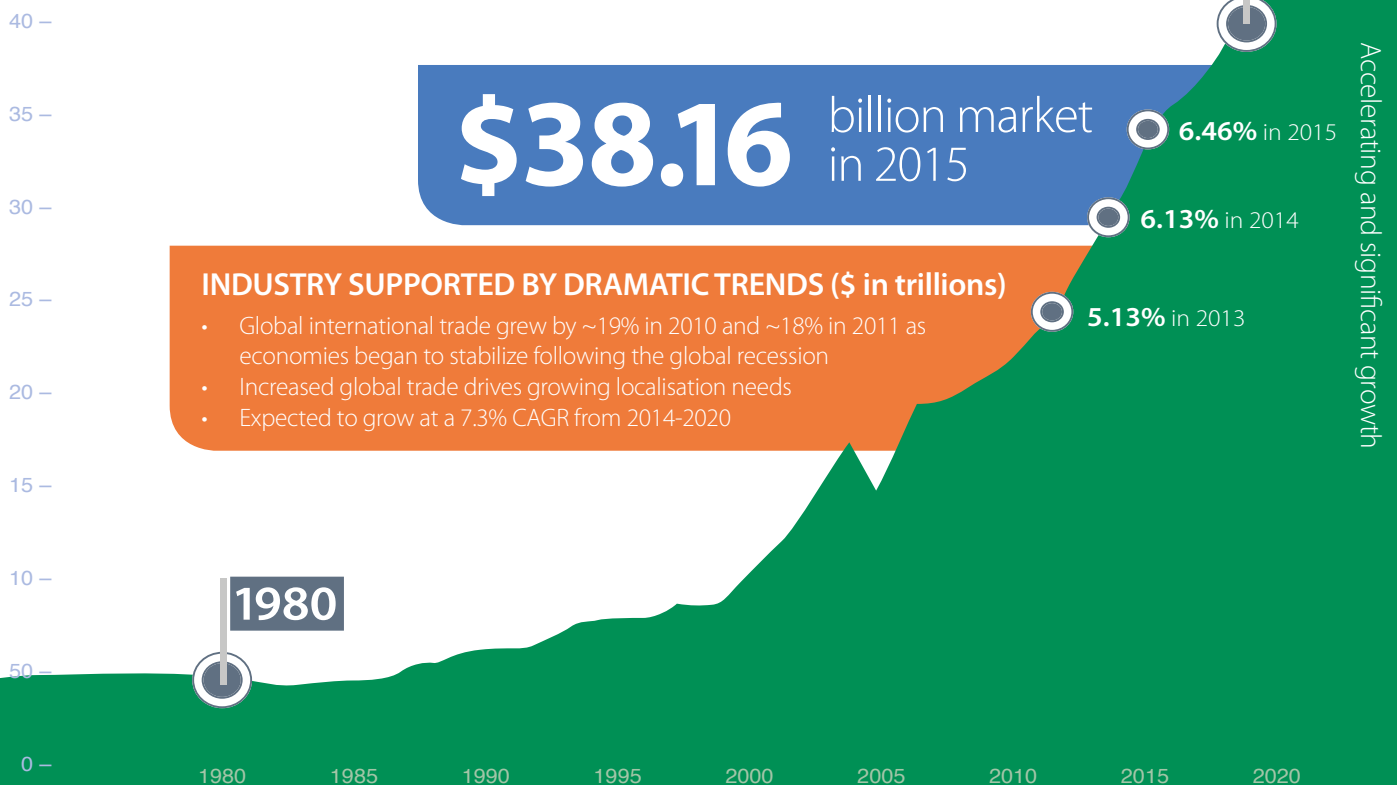
The need to deliver instant access to relevant, personalised information, across all channels and devices, in local language requires quicker time to market.

### 4. Delivering a relevant customer experience

Customer experience is now a key differentiator for many organisations. Delivering content consistently across languages and cultures, whilst maintaining brand control and local relevance is now a priority in engaging global audiences.

### 5. International regulatory requirements

Taking products and services to international markets requires compliance with local regulations and laws. In highly regulated industries this includes meeting stringent rules for providing timely information in local languages.





These market forces will continue to grow and SDL's unique combination of technology and language services gives us exciting opportunities. Technology plays a crucial role in managing the increase in volume, variety and velocity of local language content needed to do business in today's global markets.

SDL's technology-enabled language services drive efficiency in the speed and cost of translation, whilst maintaining consistency and quality. Translation memory allows for the reuse of previously translated content while machine translation is integrated for increased automation. Our translation management solution integrates into content systems and allows organisations to handle the growing complexity in both the content landscape and in operationalising international content creation.

Although there is widespread demand for language services across all industries and geographies, there are a number of areas where we believe there is significant additional opportunity for SDL:

- a** Expansion of our transcreation services for marketing professionals. (Delivering high quality cultural adaptation of messages from one language to another while maintaining intent, style, tone and context)
- b** Continued expansion of our commercial operations in Asia, particularly in support of Asia to Asia commerce
- c** Building out our vertical strategy launched in 2015, focusing on the regulated industries
- d** Expansion of our operations to provide enterprise level translation capabilities to companies of all sizes

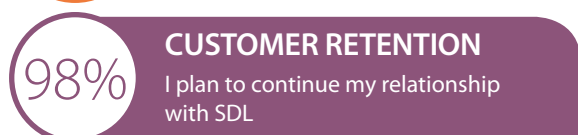
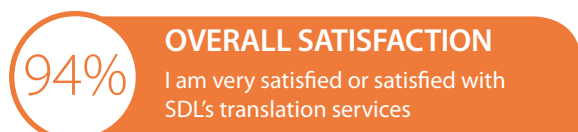
AccorHotels is a world leading hotel operator and the market leader in Europe, operating in 92 countries with 180,000 employees, 290 million visitors and 2m Facebook fans.

"As we cement our leadership in Europe and swiftly develop our presence in emerging countries, we need to tailor our brands to suit local preferences – we only have seconds to capture a customer's attention. Working with SDL allows us to deliver a more unique and personalized online experience for each guest. We are now translating over 20 million words into 18 languages and can launch a new language in under two and half months!"

Jean-Francois Collignon, Expert and Quality Unit Director, AccorHotels

Our language services operating model is possibly the best in our industry. This is evidenced by our customer retention statistics and by our industry leading levels of profitability.

### Customer Satisfaction Survey 2015



Unlike many of our competitors who exclusively use freelance translators to deliver their content, SDL operates a global network of 55 offices in 38 countries, employing 1000+ translators within our business. Whilst our in-house, in-country model is supplemented by the freelance market to offer additional capacity and expertise, the opportunity for customers to engage directly with translators in local markets is seen as a real additional value in partnering with SDL.



[www.thebrandusa.com](http://www.thebrandusa.com)

### The company

Brand USA, the destination marketing organization for the United States, selected SDL's Language solutions to enhance the quality and consistency of brand messages to tourists across the globe.

### The challenge

Brand USA relies on SDL Language Cloud to centralize and automate the translation workflow initiated by numerous agency partners. Following the technology implementation, Brand USA was able to translate 370,000 words into nine languages in the first three months, while benefiting from translation memory leverage and consistency across departments and multiple ad agencies. In addition, Brand USA benefits from SDL's translation services for 11 languages, SEO, video localization and transcreation, ensuring the very highest possible quality of the local language marketing content.

### The solution

"At Brand USA, we need to reach people all over the world and encourage them to come explore the many diverse travel experiences throughout the United States. Essential to our mission is to communicate to international travellers in their native language, to convey our brand message and tone with maximum emotional impact. By consolidating our language technology under SDL, we've not only increased our output and efficiency, we've also improved the quality and consistency of content."

Mark Lapidus, Director of Digital, Brand USA.

### The results

**370,000**

words translated into nine languages in the first three months following the technology implementation.





[www.salesforce.com](http://www.salesforce.com)

### The company

A great example is Salesforce.

### The challenge

Everyday Salesforce customers see a huge volume of valuable content pass through its platform, but many colleagues are unable to read it due to language barriers. These language barriers can slow down the optimization of global content and customer information.

### The solution

SDL's MT solution is now integrated with Salesforce, bridging this language gap with real-time multilingual collaboration for global sales, marketing and support teams. It unlocks global account knowledge for a single view of opportunities and customer accounts, allows instant collaboration between colleagues with on-demand translation in more than 100 languages, and enables service agents to triage cases raised in any language and route them appropriately. This integration leverages SDL Language Cloud, relied on by some of the world's leading brands.

### The results

**Instant**

collaboration between colleagues

**100+**

languages translated on-demand

## Language Technology

SDL provides a complete language technology platform that spans the entire translation ecosystem. Whilst the markets for these technologies are relatively small compared to our services business, technology is a key differentiator for SDL and is a strategic part of our portfolio to meet the future needs of the language market. Our portfolio can be divided into 3 product areas:

### 1. Machine Translation, MT:

We estimate the MT market to be £200m - £300m per annum with a growth rate of 15+%. Whilst SDL has a 5-7% market share, we are unique amongst our language services peers in having our own statistical based machine translation engine. In the pure MT market our ability to customise our MT engines to meet the individual needs of vertical markets and specific customer requirements means we can out-perform other MT providers. This technology, which we acquired in 2010 and have been developing ever since, allows us to offer a full range of translation solutions, depending upon the content type. By matching content to the right translation method; human, machine translation or post-edited machine translation we can provide the most time and cost effective solution.

The maturing of MT as a technology is contributing significantly to the growth in translated content volumes. MT is becoming an increasingly valuable option in areas where language is repetitive, predictable or well structured. As well as being a cost effective solution for the translation of user generated content such as social media, blogs, community forums and chat, which would previously not have been cost-effective to translate, MT is also achieving success in more challenging industries such as financial services.

MT has also been adopted by our own language services group to increase translation productivity for our clients and is utilised in 32% of translation projects. In addition, we are beginning to develop new markets in enabling other software companies to embed our MT and translate their own user generated content.

### 2. Translation Productivity, TP:

This is a market which is estimated to be worth around £35m - 40m per annum and has similar growth trends to the overall language industry of around 6-8% per annum with the associated growth of translator volumes.

SDL Trados is the market leading Translation Productivity platform with c. 70% penetration, chosen by over 225,000 translators and localization project managers worldwide. It is used by corporations, government institutions, other Language Service Providers as well as our own in-house translators and the global freelance community. SDL Trados significantly enhances a translator's productivity through its use of translation memories and terminology glossaries which accelerates localization and time to market, improving translation quality and reducing costs.

The Translation Productivity set of software is not only the standard choice for translation but offers a wide range of project management features that enable thousands of localization teams to manage, outsource, cost and review projects supporting the localization of billions of words every month.





To accelerate growth and expand into additional markets, we are piloting programmes which enable us to tap into the potentially huge market of part time translators and bilingual people, estimated to be worth up to £10 million revenue per annum.

**3. Translation Management Systems, TMS:**

This market is estimated to be £35-45 million revenue per annum, benefiting from the same growth trends as the overall language industry and the need for Language Service Providers (“LSPs”) and clients to embed translation into a systematic workflow tool.

SDL’s Translation Management products (SDL TMS and SDL WorldServer) are the number one and two most adopted solutions in the market. They enable both SDL and our customers to effectively manage complex, large-scale translation work. This includes workflow, resource management, estimating, billing, checking and verifying. Although our translation management products are well placed in the enterprise market we see opportunity for a more entry level solution to capture a growing mid-market segment. Increased global connectivity is allowing companies to expand internationally much earlier in their development. Our SDL Language Cloud Managed Translation solution empowers businesses of all sizes to efficiently translate and manage global content delivery and benefit from enterprise class translation technology with reduced overhead and complexity.

Embedding language capabilities into the software that content authors and managers use every day is a key strategy for driving language technology adoption and ease of use. We have a number of integrations with leading content management solutions, including deep integration with SDL Web and SDL Knowledge Center. We will continue to expand our integration strategy with the aim of making language capabilities available to all.

Collectively our Language Technology solutions provide an integrated platform serving the entire translation ecosystem. From client through to LSP to translator our language platform unites the entire supply chain and provides efficiencies through streamlined workflows, ease of file and asset sharing and collaboration.

- **SDL Trados and MT**  
Combining MT with SDL Trados creates the ideal environment for post-editing, driving additional efficiency in translation. Upcoming technology will enable mass and instant customisation of MT engines delivering an entirely new way of working between translation and MT.
- **SDL Trados and TMS**  
Using a TMS and Computer Aided Translation solution that share documents, translation memories and terminologies ensures seamless integration and efficiency.
- **MT and TMS**  
Existing translation memory and terminology stored within a translation management solution can be used to train company-specific MT engines for higher quality output. With feedback from post-editing the MT can be used to train and improve the MT output.



[www.skf.com](http://www.skf.com)

**The company**

For over 100 years, SKF has led the way as a global provider of technology. Representing 40 industries across 32 countries – from motoring to marine, railways and aerospace to medical, metals and food – the company needed a single, global online face to engage with its diverse customer base that spanned a 300,000+ product range.

**The challenge**

Following recent acquisitions and organic global growth, SKF was running 10 company websites as well as many disjointed country sites around the world. With the help of SDL Web for centralized web content management and SDL’s Translation Management solution for localization, SKF was able to efficiently consolidate the 10 main websites into a single company site in just 18 months. As a next phase, SKF then launched 60 localized sites, representing 37 languages in just 12 months – 6 months faster than expected.

**The solution**

As well as achieving its goal of presenting one face to the customer through an integrated digital marketing ecosystem, SKF also achieved 15% more customer inquiries per year; 50% increase in local site traffic; significant costs savings by reusing 50% of translated content, and one centralized web content master for 300 content managers.

**The results**

**15%**  
more customer inquiries per year

**20% to 70%**  
increase in local site traffic

**50%**  
of translated content reused, resulting in significant costs savings

# Blackboard®

[www.blackboard.com](http://www.blackboard.com)

## The company

Blackboard, long known as a leader in the Education Technology space, and a pioneer of the Learning Management System (LMS) industry, has 19,000 clients in 190 countries. Blackboard has actively evolved to meet the needs of the education industry and expanded its business with new solutions that inspire the world to learn.

## The challenge

"We wanted to deliver a web experience that would meet the needs of both existing and prospective customers, highlighting the solutions specific to their market needs, in whatever geographical region they lived, in whatever language they spoke, and from whatever device they used."

Jon Gold, Director, Web Strategy & Design, Blackboard.

## The solution

After implementing SDL Web, Blackboard quickly increased conversion by 14% in the first year, lowered its bounce rate by 20% and experienced an 8% increase in engagement on its mobile friendly site. Blackboard now delivers a consistent, scalable global web experience to all visitors.

## The results

**14%**

conversion increase in the first year

**20%**

lower bounce rate

**8%**

increase in engagement on its mobile friendly site

Technology is having a huge impact on the evolution of the localization market. More content can now be cost-effectively translated. SMEs can now translate marketing materials, contracts and websites to enable them to expand internationally earlier in their development as businesses. Marketers are becoming more demanding in requiring local language versions of content to not only be translated accurately, but also to retain the same nuance and sentiment as language and cultural barriers are crossed.

SDL's network offices and technology leaves our business ideally placed to respond to these challenges and opportunities. An inevitable extension of the requirements of marketers to produce local language versions of their content, is the requirement to deliver web sites in local language, whilst retaining some element of central control for efficiency.

## Global Content Technologies

In today's digital era, delivery of multi-site, multi-channel, and multi-lingual experiences remain top priorities for global organisations. The challenge though is striking a balance between global control on the one hand – to ensure brand consistency, scale, compliance, and time to market – and regional autonomy and innovation on the other hand – to ensure that web sites, mobile experiences, and marketing campaigns are localized for maximum relevance and impact.

SDL's global content technologies build upon our language DNA, and have been architected from the ground up to support these requirements, enabling companies to manage all their marketing and technical content, translate it in context, and personalise the delivery of it across multiple channels. Our Web Content Management and Technical Content Management solutions are complementary to our Language Services and Language Technology products, with a strong degree of customer overlap and cross-selling opportunities. While there are many content management vendors in the market place today, our solutions are unique in their ability to deal with the complexity associated with managing and delivering content on a global scale. Leveraging the integration with our language technologies, we will continue to capitalise on the trend towards globalisation by helping organisations to go global faster. SDL has begun re-aligning the cost base of its Global Content Technologies business in order to bring focus and efficiencies to this segment.

### 1. Web Content Management, WCM:

The market for Web Content Management solutions is estimated at £1bn, growing at 10-15% per annum with the majority of growth coming from upsell and replacement of older generation systems.

SDL Web, powered by Tridion, is our web content management platform that sits at the heart of the digital ecosystem, enabling businesses to manage a complex environment of web properties whilst ensuring brand and message consistency. SDL Web is unique in its ability to address the complexity of managing content across multiple brands, languages and channels, thanks to its BluePrinting® capabilities.

Growth is driven by organisations that want to deliver content globally, while retaining brand control and local



market flexibility, improve operational efficiency and decrease mounting costs. Many organisations that have grown with multiple content management systems or that have created custom systems are currently under pressure to decrease costs by unburdening themselves from legacy systems. In addition, few organisations have the agility to respond to changing internal structures due to acquisitions or changes in their business portfolios.

Significant market potential exists for organisations that need to ensure localization efficiency. This process alone can be incredibly complex with distributed teams translating content, managing these translations in spreadsheets with multiple in-house and agency translators and copying and pasting translated content into various distribution channels. Needless to say, frequently these processes are less than optimised and result in difficulty in just getting content to market and creating a level of complexity in terms of coordinated campaigns and messaging. The integration of SDL's translation management technologies with SDL Web ensure that these process inefficiencies are addressed and that translated content has a much faster time to market.

**2. Technical Content Management:**

The market for technical content management is estimated to be £240 million per annum with a growth rate of 7%.

In today's digital era, users are expecting product documentation and technical content online, available on the web as well as mobile devices, and in the language of their choice. Producing quality documentation and technical content is complex though, as it must be informative, relevant and consistent. This complexity requires structure through the use of XML.

SDL Knowledge Center stores, organises and manages all structured technical content in any language so it can be easily reused, shared, filtered and delivered to the appropriate channel. It also eliminates the complexity of XML for non-technical content creators. SDL Knowledge Center is the most powerful solution available for delivering multi-lingual technical content to customers. Integration with our language technology solutions combined with out of the box automated publishing ensures cost effective delivery in multiple languages.

Our customers' priorities are usability of content authoring & management functionality; advanced content delivery is not widely used yet, but is expected to be required in the next 5 years. Our product supports technical content creators in creating, managing, editing, reviewing and delivering highly-structured content. It is well-rated and has strong customer relationships.



[www.hach.com](http://www.hach.com)

**The company**

With a history dating back to 1947, and 22 subsidiaries, Hach manufactures analytical instruments that are used by experts globally to ensure the safety and quality of water for millions of people. Hach must produce high-quality documentation that is technically accurate, up to date and available in 27 languages. With the speed and number of product releases increasing and the number of supported global markets expanding, Hach needed to move away from its traditional, cumbersome processes for localization and technical writing.

**The challenge**

Hach selected a combined solution of SDL Translation Management System and SDL Knowledge Center. SDL Translation Management System allowed them to take control of the localization process, eliminating the cost of reviewing already translated sentences and reducing desktop publishing costs. SDL Knowledge Center provided a content management system that supported multi-lingual content, provided an easy-to-use environment, was cost-effective and offered strong DITA support.

**The solution**

This combined SDL solution decreased translation cycles from three months to 15-30 days; reduced translation costs by 60%; cut translation time by 40% and increased employee happiness by 80%.

**The results**

**60%**

reduction in translation costs

**40%**

cut in translation time

**80%**

increase in employee happiness



# informatica

[www.informatica.com](http://www.informatica.com)

## The company

Informatica, a pioneer in enterprise data integration technology, set out with the goal of improving time to global markets and efficiency in localization. Informatica's traditional book-based documentation and localization processes - involving writing highly technical content, publishing it in various formats and translating it into some of the world's most complex written languages - had become cumbersome and frustrating, adversely affecting budgeting and slowing time to market.

## The challenge

Informatica introduced SDL Translation Management System to manage the translation process and centralise translation assets and expanded on the efficiencies achieved by extending upstream into the authoring and content development process. Informatica moved to a structured authoring and publishing process using SDL Knowledge Center, supporting DITA, to streamline the process and reduce the costs associated with preparing technical documentation for global customers.

## The solution

The combined solution resulted in faster time to market for global products; enterprise-wide consistency and improved customer experience; improved reuse of content across multiple product lines; reduced global translation costs, and improved quality and consistency of translation management in a multilingual environment.

## The results

### Faster

time to market for global products

### Improved

customer experience

### Reduced

global translation costs

# Principal risks and uncertainties



The Group recognises the importance of identifying and actively managing the financial and non-financial risks facing the business. The Board is responsible for setting the levels of acceptable risk and they participate in regularly reviewing the risks and controls to ensure that the appropriate mitigations are in place. Whilst the Board retains overall responsibility, the Audit Committee, Executive Committee and all employees have a part to play. Managing risk is embedded in our culture and how we conduct our day-to-day business activities.

## Approach to managing risk

The Group's risk management process is built around the risk register. The Board has carried out a robust assessment of the principal risks facing the Group. 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. The Risk Register is reviewed and updated by the Executive Committee with risks added, amended or removed as appropriate and relevant mitigation strategies identified. The Risk Register is then presented to the Board for discussion, approval and re-rating of risks where necessary. Alongside this, the Audit Committee review the controls framework and the effectiveness of the mitigations identified to manage the risks.

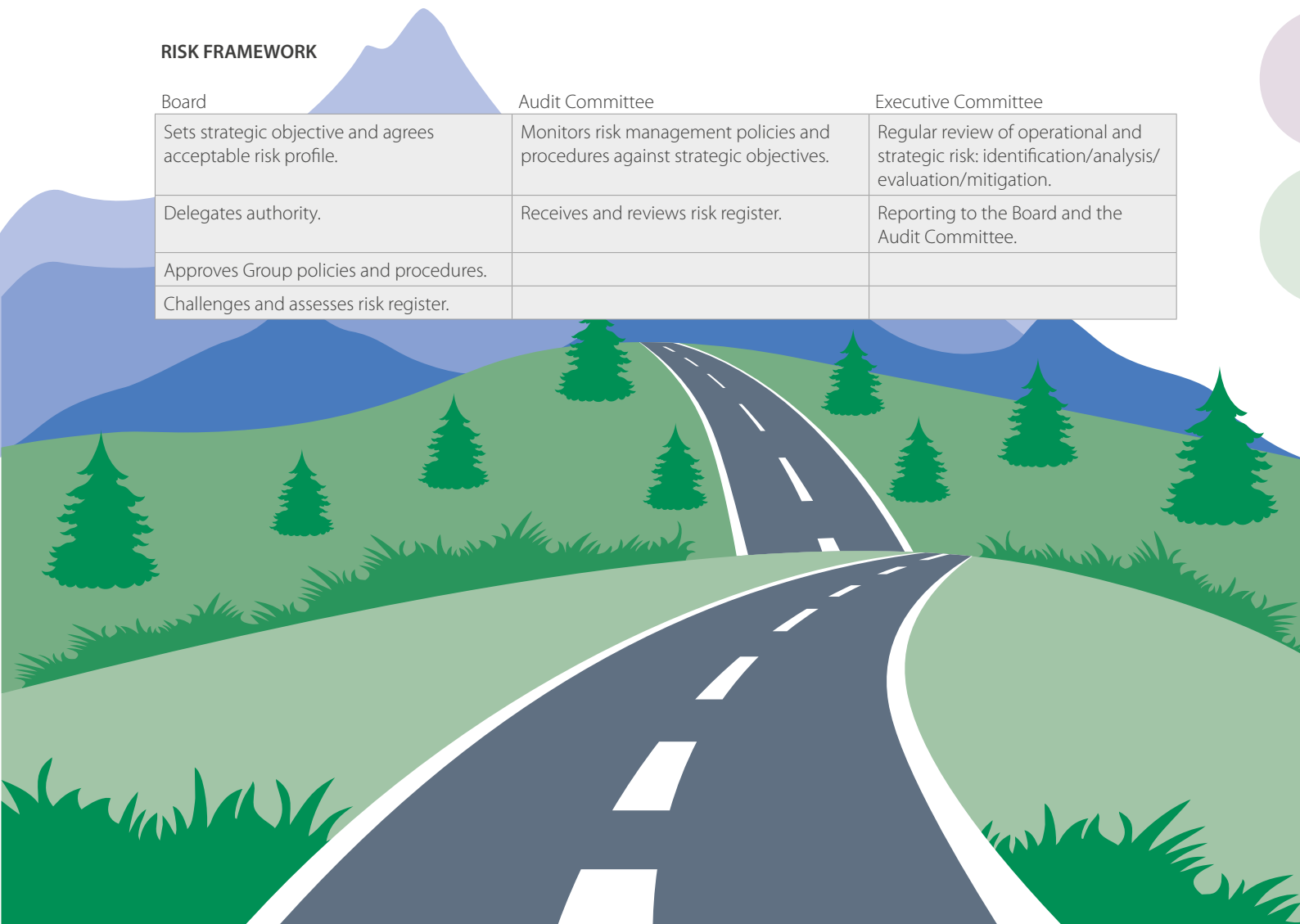
The Audit Committee formally reviews the system of internal control and risk management annually. Throughout the year ending 31 December 2015 and to date, the Group has operated a system of internal control that provides reasonable assurance of effective operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the principal risks facing the Group.

## Principal risks

The Group faces many risks and uncertainties and the system is designed to manage and provide reasonable assurance against material misstatement or loss. 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 the risk should it occur. Set out over the following pages are the principal risks and uncertainties which we believe could adversely affect the SDL Group. This list is not exhaustive and the list will change as something that seems immaterial today assumes greater importance tomorrow. In the following section, we outline those items we currently consider to be our most important risks.

### RISK 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 the Audit Committee.
Approves Group policies and procedures.		
Challenges and assesses risk register.		



**STRATEGIC RISKS**

Description	Risk	Mitigation
Competition strategy – services	Revenue (and profitability) reduction. Services business fails to sustain competitive advantage.	Maintain multilingual and network office structure and continue introduction and development of technology into translation process. Continually assess reasons behind lost sales opportunities. Keep abreast of industry trends and ensure services investment keeps SDL competitively positioned. Continue to provide customers with a high quality and differentiated service at a price that they believe is good value.
Competition strategy – technology	Revenue reduction and technical obsolescence leading to loss of market share and early mover advantage. Competition from existing localisation industry participants and increasing interest from other industries.	Maintain controlled development strategy and innovation with regular review of spend, competition offering and new entrants. Product integration strategy.

**OPERATIONAL RISKS**

Description	Risk	Mitigation
Divestment process and separation execution	Divesting non-core businesses: – divestment strategy – road map to carve businesses out from continuing operations.	Project and support teams led by specialist. Risks and rewards associated with each option assessed independently.  Identify, document and quantify: – operational dependencies and linkages to the core business; – consider the need for licence agreements, transition service arrangements etc.
Human resources	Company dependent upon the ability and experience of certain key employees in key functions.	Executive Chairman assumed role of CEO in October 2015. Aim to split the role in the next 6-12 months.  Three new Executive team members have been appointed, two from within the Group.  A talent management process is in place which identifies potential successors for key roles.
Cyber risk	Data privacy and protection - financial loss, disruption or damage to the Group's reputation from failure of its information technology systems.	IT Security: Handled within the IT risk management framework and security teams. Data Security Officer appointed in 2015.  Data Privacy: Data Privacy Officer appointed in 2015 - currently addressing compliance requirements for 2018 EU regulations including IT infrastructure, penetration testing and employee training.
Information security	Legislation/Client requirements: Fail to respond to emerging security legislation; Backup of disaster recovery processes and IT security does not match customer requirements.	ISO27001 certification process includes audit and review of external providers' capabilities. Deficiencies are assessed as part of procurement processes.  PCI guidelines are monitored and security upgrades implemented as appropriate.



**FINANCIAL RISKS**

Description	Risk	Mitigation
Economic downturn	Sharp decline in business performance.	Careful management of internal vs external sourcing of services. Monthly reviews of activity and forecasts.
Currency movements	Trading patterns and/or intercompany trading / loan patterns expose the Group to foreign exchange risk.	Clear reporting to the Board that sets out currency impacts on performance. Controlled program of intercompany balance settlement in place and balance sheet exposure reduced.

**Viability statement**

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provision.

The Board conducted this review for a period of three years, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out above.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2018.

This is the period focussed on by the Board during the strategic planning process and the Group's customers do not typically contract for a term in excess of this period. Whilst the Directors have no reason to believe the Group will not be viable over a longer period, given the inherent uncertainty involved we believe this presents users of the Annual Report with a reasonable degree of confidence while still providing a longer-term perspective.

The Board also considers the ability of the Group to raise finance and deploy capital. The results take account of the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

The review has considered all the principal risks identified by the Group and although not considered principal risks, the following were focussed on for enhanced stress testing: Group's cash flows and debt requirements, banking covenant headroom and dividend cover over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast both individually and in unison.

The Group's wide geographical and sector diversification helps minimise the risk of serious business interruption or catastrophic reputational damage. Furthermore, our business model is structured so that the Group is not overly reliant on a small customer base. Our largest customer constitutes only 4% of Group sales and our top 20 clients account for less than 22% of Group sales.

Based on the results of this analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.



# Operating and Financial Review



## Summary Performance

2015 has been a year of differing progress with excellent margin performance in our Language Services business, but disappointing new bookings performance in our Technology businesses.

Revenues for 2015 were £266.9 million (2014: £260.4 million). Profit before taxation, amortisation of intangible assets and one-off costs ("PBTA") was £20.6 million (2014: £16.5 million). The loss after tax amounted to £30.7 million, after an impairment charge of £33.3 million and other one-off costs of £5.8 million (2014: profit after tax, £6.6 million)

Gross cash in the business at the year-end was £17.2 million (2014: £22.1 million) and net cash after borrowings was £12.4 million (2014: £13.1 million).

Revenue in the year increased by 2%. Geographically, Asia grew by 20%, North America by 8% and Europe was down by 3%.

Language Services continues to deliver revenue growth and increased margins with significant progress in gross and operating margins. This segment delivered gross margins of 47.3% (2014: 45.5%) and PBTA margin of 19.9% (2014: 16.4%).

Total bookings from our technology segments had a disappointing year, down 5% at constant currency.

Cash generated from operations was £12.0 million (2014: £22.2 million). Cash generation in the year has been impacted by cash outflows associated with the restructuring programme

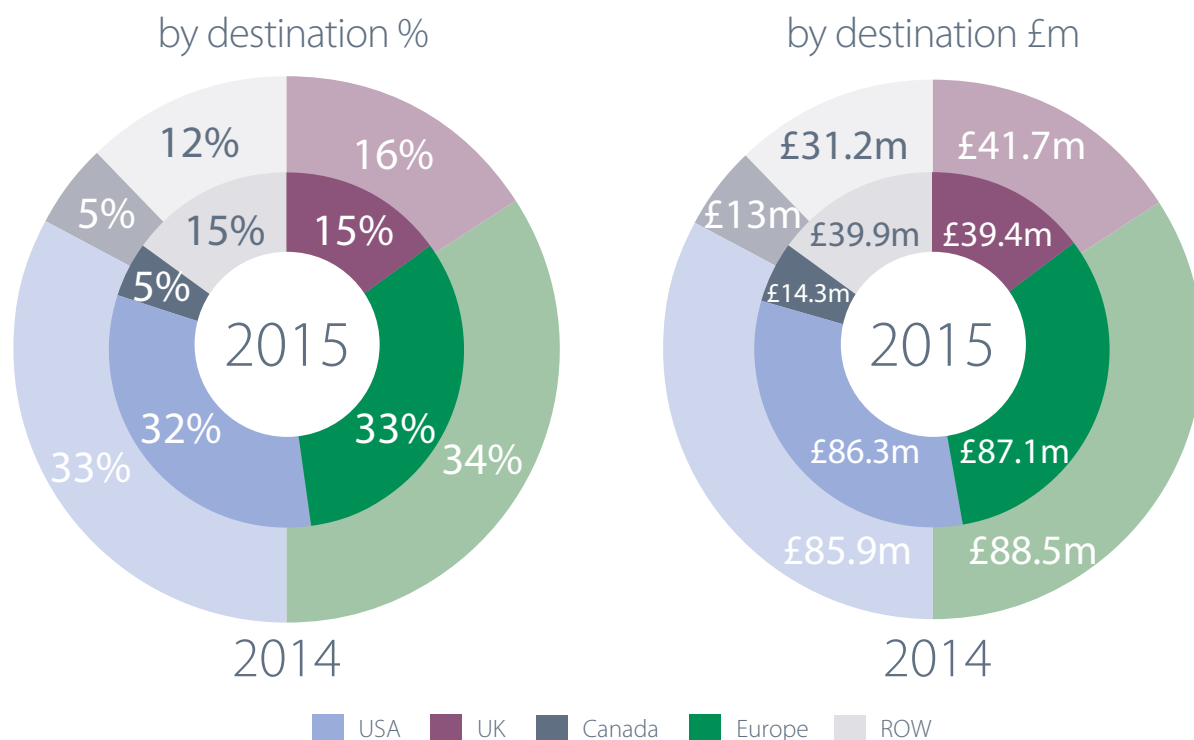
and 2014 staff incentive payments. Capital expenditure was £2.7 million (2014: £2.4 million). Tax paid was £5.8 million (2014: £3.9 million).

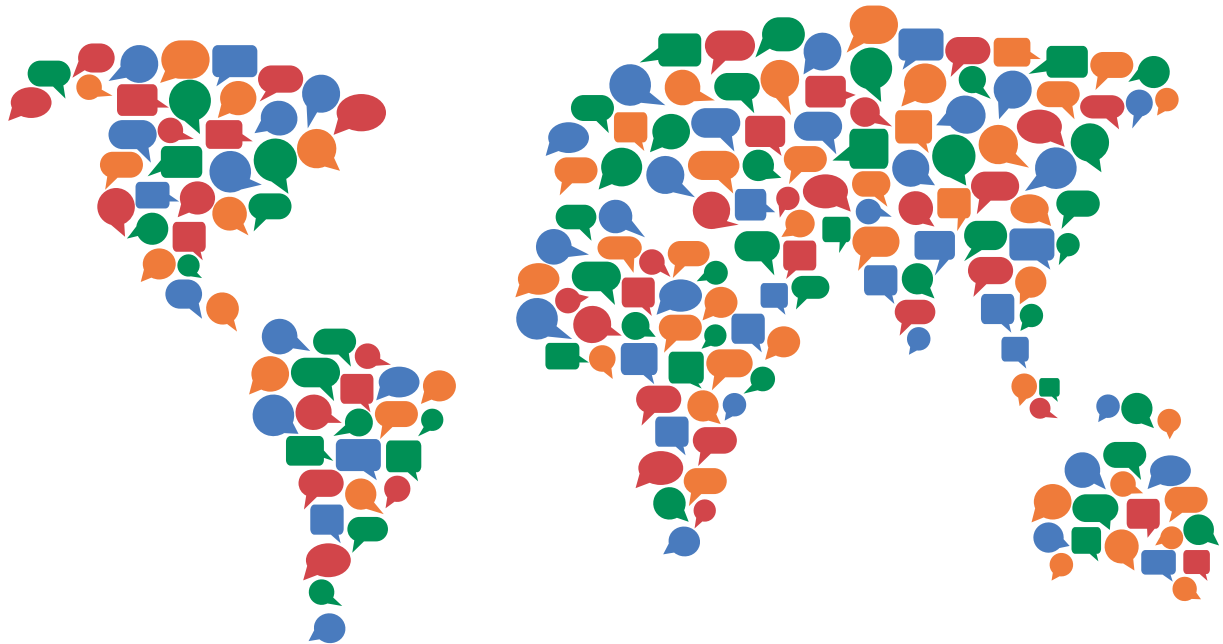
The business continues to benefit from a diverse mix of regions, industry verticals and customers, limiting the Group's exposure to adverse economic conditions in certain countries and sectors. Customer concentration is in line with prior year with the 20 largest customers contributing 22% (2014: 26%) of revenue in 2015. No single customer contributes more than 4% of Group revenues. Our largest customer was Microsoft, but we lost the majority of this account towards the end of 2015 due to unattractive pricing.

## Performance by Segment

Following the operational review, the Group has four operating segments; Language Services, Language Technology, Global Content Technologies and the Non-Core businesses. During the year the Group has revised its internal revenue and cost recharge and allocation methodologies to better reflect how services and costs are consumed by each segment. The impact of this change has been to recognise additional internal revenue recharges of £3.8 million and to reallocate costs of £1.3 million between Language Services and Language Technology segments in 2015. In accordance with IFRS8, the operating segments and internal recharges for the comparative period have been restated to provide consistent and meaningful information.

## Geographical analysis of external revenue by destination:





## Language Services

*(contributing £152.8 million or 57% of total revenue and £30.4 million of PBTA) (2014: £146.8 million or 56% of total revenue and £24.1 million of PBTA).*

2015 saw a solid performance within Language Services achieving a 4% increase in revenue. PBTA margin increased 3.5% to 19.9% (2014: 16.4%).

Customers remain at the heart of everything we do. The division achieved a 94% customer satisfaction rate in 2015, matching that achieved in 2014. Repeat revenues (revenue earned from existing customers) increased by 3.5% at constant currency.

In 2015, we continued our ongoing investment in people, as we continue to build a highly skilled and experienced workforce with particular emphasis on project management training and vertical market expertise. This supported a new vertical market strategy introduced during 2015, which saw the soft launch of 8 vertical language technology platforms with particular focus on the Life Sciences and Travel industries. This investment, which will continue in 2016, has resulted in a number of strategic new account wins in 2015 which will build revenue in 2016 and beyond.

Operational efficiency remains a core focus in driving margin performance and we increased our utilisation of low cost centres of excellence for back office and support functions. We also continued our "Technology Enabled Services" program to continue to automate and optimise processes with the rollout of SDL Groupshare. These initiatives helped drive an increase in gross margin rate.

Good progress in our regional operations has also been achieved:

- New leadership and a restructuring of sales in North America led to 152% new business growth and over 90 new customer wins which drove revenue up by 18%.

- APAC continued to experience strong growth with an overall revenue increase of 9%. This was driven by a 7% increase in the growth of existing business and a 19% increase in new revenue generation.
- The EMEA market experienced some price pressure from legacy customers and high inflation in Southern and Eastern European countries resulting in a revenue contraction of 3%. Despite these economic challenges, the gross margin was maintained.

New client wins include ADAMA, Akami, Actoz Soft, Huawei, Incheon Airport, I-ON Communications, Kaeser Kompressoren SE, Mitsubishi Electric, Office Depot, Polaris Office and Tetra Pak Korea.

## Language Technology

*(contributing £36.7 million or 14% of revenue and £1.3 million PBTA) (2014: contributing £37.4 million or 14% of revenue and £5.1 million PBTA).*

Our Language Technology total bookings increased 3% at constant currency. Renewal bookings grew 6% which helped drive annual recurring revenue up by 5% at constant currency.

Reported revenue fell 2%. PBTA margin fell 10.0% to 3.5% (2014: 13.5%).

Although our Translation Management products group increased revenue by 8%, we did see a down-turn in our US Government business. This was partly planned as we refocused our Machine Translation research group activities on increasing the quality of output from our Machine Translation products for our core customers and away from external research projects. Underlying performance was also below expectations and this business underwent a restructuring at the end of 2015.

SDL's Translation Productivity tools are used by 70% of the world's professional translators and we are very pleased



that our product commitment scores for SDL Trados Studio increased by 37% in 2015. Investment in new market entry also began to show dividends in 2015 with new sales in India and Singapore and sales growth in South Korea. Overall revenue was up 8% but was impacted by instability in the Eurozone and geopolitical issues in the Middle East and Russia.

2015 saw the launch of 5 major product and technology releases: SDL Language Cloud Managed Translation, XMT, SDL WorldServer 11, SDL TMS 11 and SDL Trados Studio 2015. Each of these followed a theme of improved User Experience and Connectivity, feeding into our strategy of making language technology capabilities more easily accessible than ever before. We also established a number of strategic partnerships including embedding our machine translation capabilities into salesforce.com and establishing connectors to a number of leading content solutions including WordPress, Drupal and Adobe Experience Manager as well as strengthening integration with our own SDL Web and SDL Knowledge Centre content platforms.

New client wins include Brand USA, Kaspersky Lab, Next IT, Office Depot, PayPal, Inc., Rentalcars.com, Symantec and YarnTree.

## Global Content Technologies

*(contributing £50.9 million or 19% of revenue and losses of £1.5 million PBTA) (2014: contributing £51.4 million or 20% of revenue and losses of £1.5 million PBTA).*

Our Global Content Technologies total bookings fell 10% at constant currency. Renewal bookings grew by 20% following good new licence bookings performance in 2014. However, 2015 new license bookings were down 47% which led to restructuring and refocusing of the sales and marketing teams in July and in early 2016. Annual recurring revenue was flat at constant currency.

Reported revenue fell 1%. Loss before tax, amortisation and one-off costs was in line with last year at £1.5 million (2014: £1.5 million).

In 2015, we released new versions of SDL Web, SDL Knowledge Center and SDL Contenta Publishing Suite and we have continued to improve the integration of our Language Technology into all our GCT products. Key new product developments included:

- SDL Web developments introduce a site launch wizard, simplified integration into e-commerce systems, new cloud capabilities and the product achieved ISO 27001 certification.
- SDL Knowledge Center now integrates 3rd party taxonomy solutions, makes content from disparate sources more accessible from one self-service experience and increases the relevance of technical communications.
- SDL Contenta Publishing Suite developments now allow users to master the creation, management and delivery of content for companies using the S1000D aerospace and defense specification.

New client wins include Alfa Laval AB, Canon, China Airlines, Cymer Inc, DAF Trucks NV, Folksam AB, and Philips Medical Systems Nederland BV.

## Non-Core businesses

*(contributing £26.5 million or 10% of revenue and losses of £9.6 million PBTA) (2014: contributing £24.8 million or 10% of revenue and losses of £11.2 million PBTA).*

Our Non-Core businesses include our Fredhopper, Campaign & Analytics and Social Intelligence businesses. These businesses operate in fast growing markets (20-35% annual growth) but these businesses are not closely related to our future language centric strategy. As such, the Board has announced our intention to sell these businesses to owners better able to invest in and support their future growth.

In 2015, total bookings fell 6% at constant currency. Renewal bookings increased by 1% and 2015 new bookings were down 23%. Annual recurring revenue was up 1% at constant currency.

Reported revenue grew 7%, principally driven by our Fredhopper business which grew 15% in 2015. Loss before tax, amortisation and one-off costs remained high at £9.6 million (2014: £11.2 million).

New client wins include Bakker Hillegom BV, Eight Dragons Digital, Hillarys Blinds, Kikki.K Pty Ltd, Kurt Geiger, Missguided, Snowleader and The Association of Mature American Citizens.

## Gross Margin

The Group's gross margin was in line with last year at 56.2% (2014: 56.6%).

## Administrative Expenses

Administrative costs excluding intangibles amortisation and one-off costs decreased in 2015 to £129.3 million (2014: £130.7 million).

Research and development costs of £26.9 million (2014: £27.6 million) are included in administrative expenses. During the year, the Group issued 13 product releases with greater functionality being deployed. In addition, 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.

Average headcount during the year increased to 3,504 (2014: 3,245). The Group has continued to recruit employees in low cost locations to optimise operational efficiencies. Employee related costs remain the most significant component of Group costs, amounting to 69% of Group overheads (2014: 66%) excluding amortisation of intangibles and one-off costs.



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 2015 was £6.7 million (2014: £7.1 million).

### *One-off items*

Intangible assets and goodwill were allocated to six Cash Generating Units ("CGU") namely Language Services, Language Technology, Global Content Technologies and the three Non-Core businesses. Following the poor new licence bookings performance of the Group's technology CGUs and the Group's operational review, the 2015 impairment review resulted in an impairment of £33.3 million across the Language Technology and Non-Core CGUs (2014: nil).

In addition to this impairment, the Group has incurred £5.8 million of other one-off costs in the year. These costs relate to: redundancy and retention costs associated with the reorganisation of the Group in 2015; professional fees and related charges associated with the operational review; corporate consolidation exercises carried out in the year; and provision for one-off tax liabilities.

## Earnings Per Share

Basic earnings per share when adjusted for one-off costs and amortisation of intangibles ("adjusted EPS") increased by 7% to 16.13 pence (2014: 15.10 pence). Basic earnings per share was a loss of 37.93 pence (2014: profit of 8.03 pence).

## Financing Costs

Interest costs in 2015 were £0.1 million (2014: £0.4 million). At the start of the year, drawn borrowings were £9.0 million. During 2015, we repaid these borrowings to Royal Bank of Scotland and drew down £4.8 million under the Group's new 5 year banking facility with HSBC plc.

## Cash flow

The Group generated £12.0 million from operations during the year (2014: £22.2 million). This cash inflow was net of £3.8 million of exceptional cash outflows arising from our restructuring activities and 2014 staff incentive payments.

Surplus cash, after deducting net income tax paid of £5.8 million (2014: £3.9 million) and investing activities of £2.9 million (2014: £2.6 million), has been used to reduce the Group's bank borrowings by £4.2 million and pay a dividend of £2.0 million to shareholders. The Group's bank borrowings of £4.8 million have been fully repaid in 2016.

As a result net cash reduced slightly to £12.4 million at year end (2014: £13.1 million).

## Borrowing Facilities

During the year, the Group signed a new £25 million committed revolving credit facility with HSBC plc, expiring in August 2020.

The agreement also includes a £25m uncommitted Accordian facility.

Pricing of this £25 million borrowing facility is between 1.15% and 1.9% above LIBOR dependent upon the ratio of the Group's total net debt to its adjusted 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 Adjusted EBITDA: Net Finance Charges and Total Net Debt: Adjusted EBITDA.

## 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 5 to the preliminary financial information.

The tax charge for the year is £5.5 million (2014: £2.8 million). This charge includes tax credits associated with amortisation, deferred tax and tax on one-off costs. The underlying current effective tax rate during the year was 36.2% (2014: 35.8%) as a result of unrelieved tax losses arising in a number of jurisdictions.

## Trados Litigation update

The Group has settled the litigation related to the Trados acquisition. A payment of \$1.85 million was made in February 2016 in full and final settlement of all claims.

## Dividend

A final dividend for the year ended 31 December 2015 of 3.1 pence per share will be proposed at the Annual General Meeting, an increase of 24% on the prior year.

Dominic Lavelle  
Chief Financial Officer



## People

Our people are central to the delivery of every aspect of our Group strategy. It is important that we attract, develop and engage them.

Our strategy for developing a strong culture of capable, motivated employees is in the following sections.

People are our greatest assets and we are committed to providing a high quality working environment which is not only productive and rewarding, but also enjoyable. Our people programme is designed to ensure that our employees are informed, listened to, develop skills and open up rewarding career opportunities.

### Culture and Communication

During 2015, SDL continued to roll out company-wide global business applications and invested in key areas of the business which underpin SDL's commitment to its people strategy:

- Monthly company update presentations by the Executive Chairman to all employees;
- Monthly newsletter sharing company-wide programmes as well as local initiatives and employee news with all employees;
- Company Intranet, the 'Hub', created to enable employees to connect more easily with colleagues and share information including access to SDL's policies;
- Yammer, a social networking tool for the business, where employees can set up groups to discuss particular topics, post questions and help answer each other's queries. Since the launch in August 2015, 180 yammer groups have been created and 7,752 messages posted;
- Site Leaders, appointed to lead every SDL office cascade messages at a local level and solicit feedback;

- Works councils, round table and other employee forums to enable discussions of performance and other issues;
- 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 2015. 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; and
- 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, which is effective in transferring best practice and sustaining culture. In 2015 we had 21 employees transfer to a different office location compared with 9 employees in 2014. Most of these employees were engineers, sales representatives, consultants and project managers.

### Employment Policies

The SDL Code of Conduct, applicable to all employees and those who work for or on behalf of SDL, sets out the standards of behaviour expected in relation to areas such as insider dealing, bribery and raising concerns through the whistleblowing process. Our employment policies are developed to reflect local legal, cultural and employment requirements whilst complying with Group principles of integrity.

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 encourages 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.

## Employees

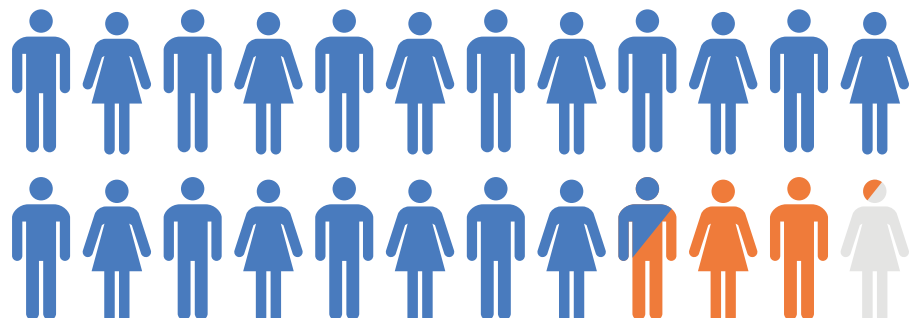
2014

3,245 Employees



2015

3,504 Employees







## Talent and development

In order to drive substantial growth in our language and global content technologies businesses and become the unrivalled global leader in a competitive global market we seek to retain and build the best skills and knowledge in the market.

We are working towards achieving this ambitious goal by providing a variety of ways to develop at SDL—eLearning, instructor-led training, feedback, coaching and mentoring, and various on-the-job experiences. Our focus and commitment is on helping employees perform at their very best and achieve their full potential.

Our learning and development strategy includes:

- **Performance Management:**

Employees are encouraged to engage in frequent dialogue with their manager throughout the year to understand how their work aligns with the goals of their department and to gain feedback and coaching on their performance;

- **Learning:**

In 2015 SDL launched MyLX (My Learning Experience), a learning management system that serves as our one source for all internal learning. The online platform enables employees to learn what they want, when they want, wherever they are. Employees have access to a variety of learning assets, including product training, professional development courses, business applications training and over 2,000 desktop video courses through Skillsoft. Additional Skillsoft content is provided to people within certain roles, along with learning plans that are aligned to the business needs;

- **Leadership Development**

Our Management Development Programme (MDP) was consolidated and updated in 2015, creating a compact and agile programme. Overall, a total of 88 Managers from 31 locations worldwide have taken part during the last 12 months. Since its inception, this programme has helped nearly 600 SDL managers develop their capability as leaders, with plans to continue to expand its reach during 2016. To reinforce concepts learned in MDP, we also provide leaders with targeted leadership videos, courses from Skillsoft and internally developed programmes on key topic areas, such as Giving Feedback;

**SDL's Project Management Pathways Programme:**

Based on the Project Management Body of Knowledge (PMBOK® Guide) and fully ISO compliant, this programme was further extended in 2015 to include a combination of classroom and Skillsoft eLearning programs, delivered via MyLX. 174 people completed Pathways during 2015. In addition, SDL was very proud to be nominated for The Project Management Institute's Continuing Professional Education Product of the Year Award for our Pathways Intermediate Programme. This nomination, recognised our ongoing commitment to the quality, applicability and relevance of project management training delivery; and

- **SDL Quality, Processes & Systems**

was 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.) and is pre-approved by PMI to issue Professional Development Units (PDUs) for all 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.

The SDL University Partner Programme supports universities and lecturers in the teaching of translation software worldwide and offers training, free certification programmes and advice to students that are on-the-way to becoming language/translation professionals. The programme saw growth during 2015 adding 18 new universities as education partners bringing the total to over 350 worldwide in 68 countries.

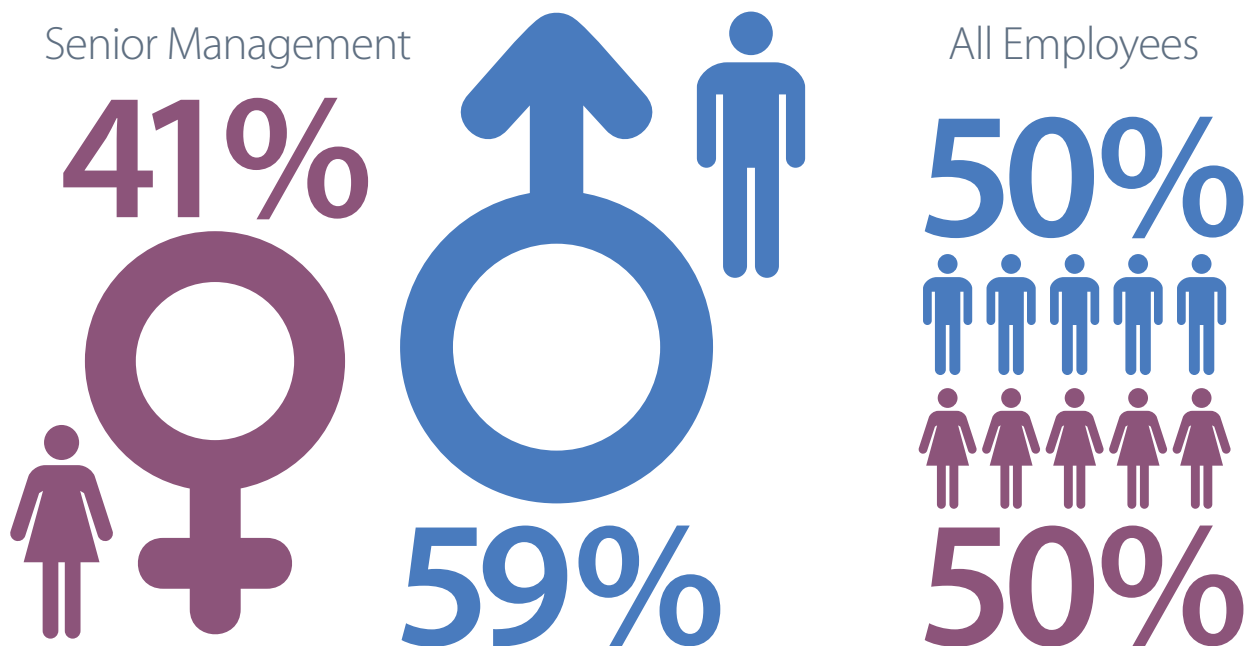
With the launch of SDL Trados Studio 2015 we have equipped our partner universities with the latest software and certification material for their language labs and student computers and we have helped lecturers stay up-to-date with the latest developments in the translation industry. Work has also started on a dedicated Graduate Programme, which is an extension of the University Partner Programme, to ensure that language graduates also have access to certifications, software and training, once they leave University. Sharing our knowledge about Computer Assisted Translation tools and enabling graduates to develop the skills they need to start their professional career is an integral part of our commitment to further develop the people, technology and best practices in the language industry.

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 continued its collaboration with the University of Southern California, University of Colorado and the Linguistic Data Consortium to design and develop a semantic representation of language, Abstract Meaning Representation (AMR), aimed at advancing state-of-the-art language technologies and applications;
- SDL Research offers annual summer internships for outstanding Ph.D. students in the field of Machine Learning and Natural Language Processing. Previous interns joined SDL Research from competitive programmes at top universities such as Carnegie Mellon University, University of Southern California, John Hopkins University, University of Cambridge, Heidelberg University and University of Sheffield;
- SDL began a public-private partnership project with Centrum Wiskunde & Informatica (CWI), as part of the overall EU project called 'Envisage', 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



## Gender Breakdown



to applications;

- SDL's relationship with the University of Bristol and the University of the West of England is entirely focussed on internship programmes, where the research areas and goals of the internship are determined on a per-case basis; and
- SDL maintains an ongoing relationship with the Babes-Bolyai University and Technical University of Cluj to help support internship and graduate support programmes, covering both the technical and linguistic domain.

### Equality and diversity

A diverse workforce helps us achieve our goals by helping us better understand and meet the needs of our customers. We are both a multinational and a multicultural company.

Gender diversity is a key goal for us. Over the SDL Group we employ equal numbers of men and women. The proportion of women in senior management is slightly below this ratio (female senior managers: 41%, male senior managers: 59%).

SDL values applications from disabled or handicapped persons and our policy is to always consider 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 organisation. Under no circumstance will discrimination due to disability either direct or implied be tolerated.

We believe in treating all employees equally and offer equal opportunities in all aspects of employment and advancement regardless of race, nationality, gender, age, marital status, sexual orientation, disability, religion or political beliefs.

### Corporate citizenship

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 programme of Corporate Social Responsibility (CSR), both from the employee's perspective of being an employer for whom staff can feel proud to work, and from the perspective of clients who increasingly prefer to work with companies who demonstrate core ethical values.

Our corporate citizenship 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; and
- We are committed to reducing our environmental impact.

In 2015, many SDL offices participated in charitable endeavours to help people or organisations in their local communities. **You can see activities on the CSR page of our website – [www.sdl.com](http://www.sdl.com).**





## SDL Foundation

2015 was another excellent year for the SDL Foundation. It continued to partner with charities to support projects in disadvantaged communities across the world, helping them to become self-sufficient. These aspects are at the heart of the SDL Foundation as it seeks causes and charities that mirror its objectives of supporting structural and sustainable projects. The Foundation enables recipients to better their own 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.

It also continued to put a strong emphasis on employee engagement and collaborated with SDL's (CSR) programme to enhance awareness of the SDL Foundation and increase employee involvement from SDL's global offices in CSR activities. This was demonstrated in May 2015 as the SDL Foundation celebrated its 5 year anniversary. SDL offices across the globe participated, held fundraising activities and developed new ways to get involved with both the SDL Foundation and charities and initiatives local to the offices.

Projects in 2015 include:

**Hatua Likoni** – the SDL Foundation's funding helped Hatua Likoni to sponsor over 250 children in 2015, 150 in high school and 100 in university. The students come from disadvantaged families in an extremely deprived area of Mombasa, Kenya. Hatua Likoni also provides them with out-of-school mentoring, such as decision making, life skills building and career development, 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 100% of Hatua's high school graduates qualified for University with academic results significantly above the local and national averages. The dedication of the young people was demonstrated by the fact that 36% of students ranked in the top 10% of their class.

**Food for the Hungry** – the SDL Foundation has been working alongside Food for the Hungry, in Kenya, on a 10 year project to turnaround the impoverished community of Maisa Bora. Great strides have been made over the last 2 years with the village elders and community leaders who have been taking responsibility for developing income generating projects and driving attendance at the local schools and improving results. The Foundation's funds have been specifically used by the community to successfully establish small businesses.

**Santa Maria Education Fund** – this small fund based in Paraguay and founded by the mother of a Maidenhead employee, has relied on volunteers to carry out life changing educational and vocational scholarship support to the teenagers of impoverished families. The SDL Foundation funding will enable SMEF to employ its first full time resource for up to 3 years to concentrate on arranging more teaching volunteers and establishing industry relationships to create more employment opportunities enabling the students to significantly improve their lives and those of their wider families.





## 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 renewed its partnership with the Prince's Trust by providing funding for a further 4 years. SDL employees in the UK have embraced this charity by using their skill sets and life experience to help underprivileged teenagers to move into vocational positions and the employment market. In 2015, 28 volunteers carried out 11 CV and Interview Skills workshops and their great work earned SDL a runner up award in the Volunteering category for the Prince's Trust 2015 Corporate Awards;
- The SDL Foundation's collaboration with BeadforLife, initiated by the office in Colorado, has been extended into funding for the Beads to Business training programme which helps women to set up small local businesses over and above bead manufacturing. It gives them the tools they need to survive and thrive in their own local economy, which will help them provide for their families and send their children to school. In December 2015, 9 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 and oxen and ploughs to increase farming income; and
- The SDL Foundation continued to work with the St Wilfrid's Centre in Sheffield, enabling the homeless to re-establish themselves and re-join the labour market. The Centre has benefitted hugely over the past 3 years from the close and enthusiastic involvement of the local SDL office, through employees using their skill sets to help members at the Centre and through a number of innovative fundraising exercises.



## Environment

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

SDL is a software and professional services company and, whilst our carbon emissions are low compared to some other sectors, they're still our biggest environmental impact. Therefore, we work to improve our environmental impacts across the Group which result primarily from travel and energy use in buildings.

In 2015, SDL complied with the Energy Savings and Opportunities Scheme (ESOS). This scheme, mandated in the UK under an EU Directive, required businesses to measure their total energy consumption and identify cost-effective savings opportunities for their UK operations to improve energy efficiency and profitability. SDL worked with Carbon Clear to conduct energy efficiency audits and act as its external Lead Assessor to comply with the requirements of the scheme.

The footprint covers the period of the 12 months ending 31 December 2015 and is presented alongside the data for the previous year (2014) for comparison. The footprint was calculated by Carbon Clear Limited using data provided by SDL and was conducted in line with the ISO-14064-1:2006 standard for organisational carbon footprinting.

Under an operational control approach, all SDL's operations have been included in the footprint. Activity data was collected from SDL's UK Head office in Maidenhead and five other major office sites and emissions then uplifted for all of SDL's remaining offices based on revenue, giving an emissions

total for SDL's entire global operations. This has been done in order to comply with Mandatory Green House Gas Emissions reporting regulations.

### 2015 Headline Results

The analysis shows that SDL's carbon emissions for the six offices during this period amounted to 4,357 tonnes of CO<sub>2</sub>e (Figure 1).

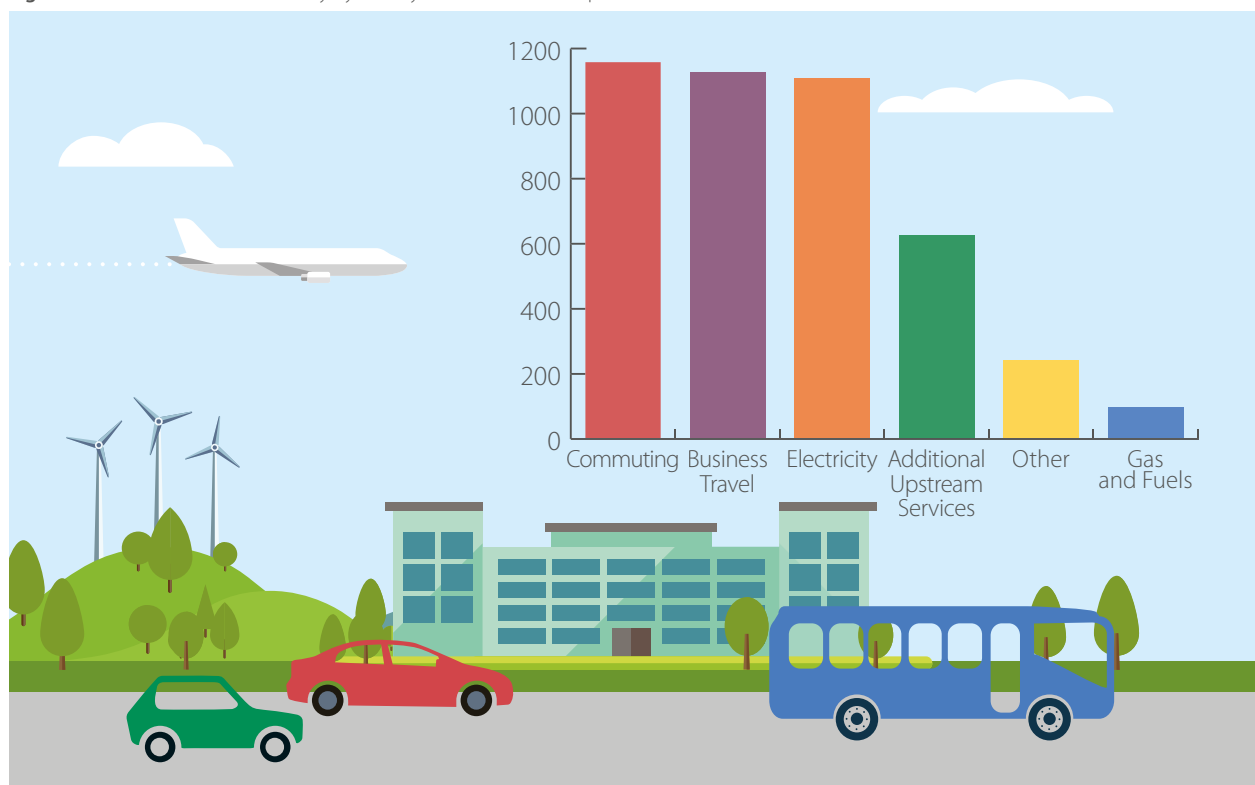
The largest source of emissions was commuting (27%), followed by business travel (26%) and electricity consumption (25%). The Maidenhead office accounted for 36% of the six offices' total emissions. The uplifted total for the global operations is 8,811 tonnes of CO<sub>2</sub>e.

### Year on Year Analysis

When compared with 2014 (Figure 2), the total footprint has decreased by 14.8% (755 tonnes CO<sub>2</sub>e). The movement in emissions year on year is summarised below:

- Emissions from business travel have decreased significantly by 18.2% (251 tonnes CO<sub>2</sub>e). This can be attributed to a 21.9% (290 tonnes CO<sub>2</sub>e) reduction in air travel (which is carbon intensive), attributable to sites such as Superior USA which reduced its air mileage by 47%. This site had a high

Figure 1: Carbon emissions summary by activity for 2015 for six sampled sites





level of air travel during 2014 due to travel requirements to our off-shore office in Mumbai, India.

- Emissions related to direct electricity consumption have also decreased by 126.1 tonnes CO<sub>2</sub>e, or 10.2%. In addition to this the gas consumption has continued to drop with a 0.7% (0.6 tonnes CO<sub>2</sub>e) drop this year.
- There has been a significant decrease in the emissions from staff commuting (20.2% reduction, 293 tonnes CO<sub>2</sub>e). It is noted that a larger number of responses were received for 2015. This increase in sample size would increase the accuracy of commuting calculations.
- There has been a significant increase in the area of business travel by car, with a 133.6% (37.1 tonnes CO<sub>2</sub>e) increase in emissions. This increase can be partly attributed to a reduction in other business travel options.

## Global Footprint

The results show that GHG emissions in the period were 8,811.4 tonnes of CO<sub>2</sub>e, comprised of the following;

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

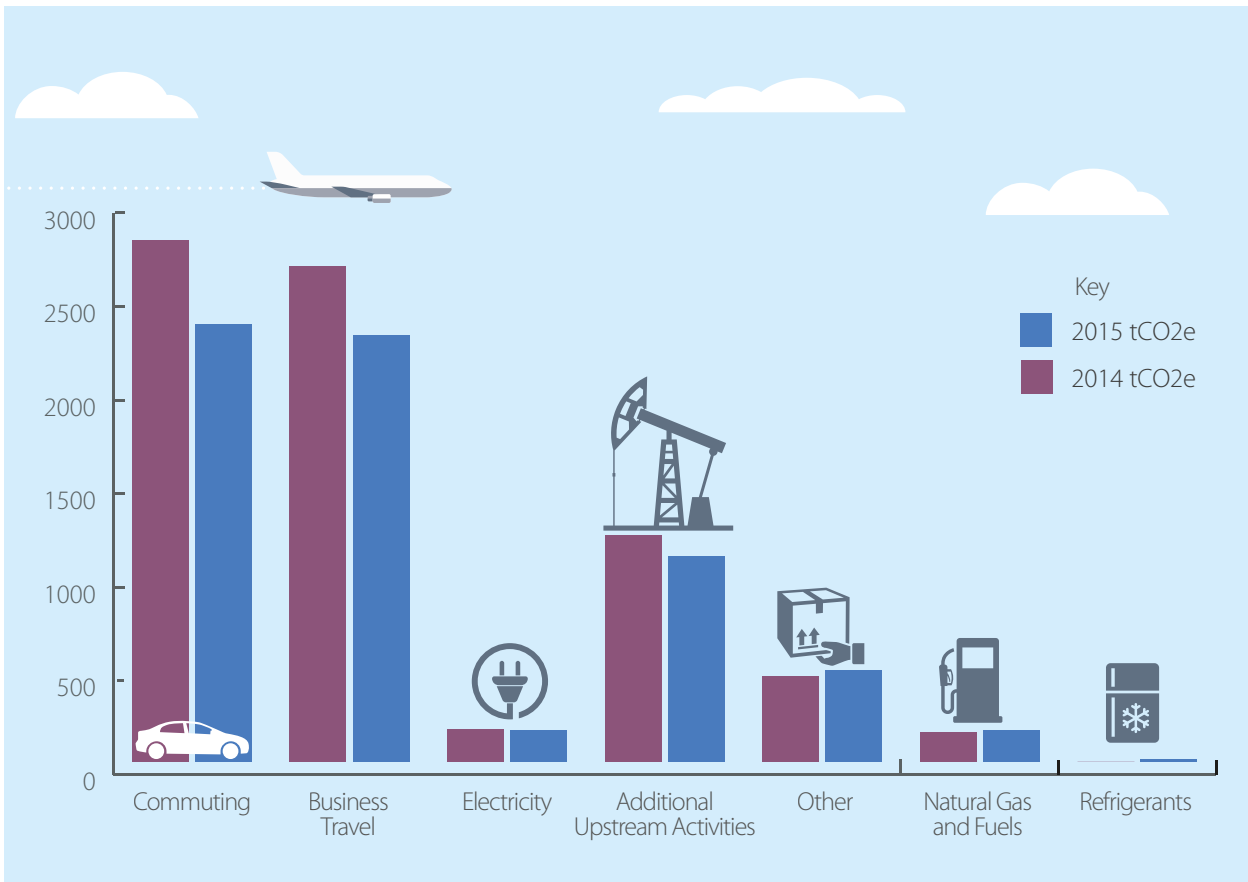
- Direct Emissions (Scope 1) were **193.2** tonnes of CO<sub>2</sub>e or 2% of the total.
- Indirect Emissions (Scope 2) were **2,238.9** tonnes of CO<sub>2</sub>e or 25% of the total.

### Scope 3 – Additional Activity Data Reported

- Other, Indirect Emissions (Scope 3) were **6,379.3** tonnes of CO<sub>2</sub>e or 72% of the total.

The table on page 27 gives a more detailed breakdown of the emissions by activity and a year on year analysis.

Figure 2: Carbon emissions year on year comparison (tonnes CO<sub>2</sub>e)



Note: The 2014 footprint has been recalculated with actual and updated data from November and December 2014. Previously for 2014 analysis, only data from January to October 2014 was provided with extrapolation method used for the remaining two months (November and December). Methodologies have also been refined and aligned to ensure a like-for-like comparison between reporting periods.



Types of Emissions	Activity	2014 tonnes CO <sub>2</sub> e	2015 tonnes CO <sub>2</sub> e
Direct (Scope 1)	Gas	159.0	166.1
	Diesel		0.0
	Pool Cars / Company Cars	18.0	11.3
	Refrigerant		15.7
	<b>Subtotal</b>	<b>177.0</b>	<b>193.2</b>
Indirect Energy (Scope 2)	Purchased Electricity	2,371.6	2,238.9
	<b>Subtotal</b>	<b>2,371.6</b>	<b>2,238.9</b>
Indirect Other (Scope 3)	<b>Business Travel</b>	<b>2,650.4</b>	<b>2,279.6</b>
	Flights	2,553.1	2,096.9
	Car (Staff owned)	53.3	131.0
	Other	44.0	51.7
	<b>Commuting</b>	<b>2,788.8</b>	<b>2,341.3</b>
	Car	2,590.5	2,153.7
	Other	198.4	187.6
	<b>Additional Upstream Activities</b>	<b>1,385.5</b>	<b>1,268.0</b>
	Electricity T&D	176.5	169.3
	WTT**	1,209.0	1,098.7
	<b>Other</b>	<b>457.9</b>	<b>490.4</b>
	Waste	128.1	47.4
	Water	7.9	10.0
	Deliveries	113.2	143.4
	Stationery	9.2	8.1
	Printed Materials	2.8	3.2
	Postage	0.3	0.6
	Hotel	196.6	277.5
	<b>Subtotal</b>	<b>7,282.7</b>	<b>6,379.3</b>
	<b>Total Emissions</b>		<b>9,831.3</b>

\*\* Well-to-tank (WTT) emissions are those emissions associated with the upstream processes of extracting, refining, and transporting raw fuel to the vehicles, asset or process under scrutiny

Note: The 2014 footprint has been recalculated with actual and updated data from November and December 2014. Previously for 2014 analysis, only data from January to October 2014 was provided with extrapolation method used for the remaining two months (November and December). Methodologies have also been refined and aligned to ensure a like-for-like comparison between reporting periods.

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

Year	Tonnes CO <sub>2</sub> e	Revenue (£m)	Tonnes CO <sub>2</sub> e/£m	FTE	Tonnes CO <sub>2</sub> e/FTE
2015	8,811.4	267.0	33.0	3,345	2.6
2014	9,831.3	260.3	37.8	3,425	3.0

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

Dominic Lavelle  
Director  
15 March 2016



## Board of Directors



### David Clayton

Executive Chairman

Tenure: 6 years (appointed December 2009)

Board Committees: Nomination

David Clayton was appointed Executive Chairman of SDL PLC on 1 October 2015. He previously served as non-executive Chairman of SDL PLC from July 2013. He joined SDL as a Non-Executive Director in December 2009 and has served as the Senior Independent Director.

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.



### Dominic Lavelle

Chief Financial Officer

Tenure: 2 years (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: 16 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 NCC Group plc, Toumaz Holdings Ltd, Iomart plc and is Chairman of Eckoh plc.





### Glenn Collinson

Non-Executive Director | independent

Tenure: 1 year (appointed June 2014)

Board Committees: Audit, Nomination and Chairman of Remuneration

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: 4 years (appointed January 2012)

Board Committees: Remuneration and Chairman of Audit

Mandy Gradden is an experienced corporate CFO with more than 20 years financial and senior management experience. She is CFO of the media group Ascential plc which recently floated on the London Stock Exchange. 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: 2 years (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 is also Chairman of Belfield Furnishings Ltd. He has previously held Chairmanship and non executive roles with numerous quoted and private companies. He was an Executive Director of Marks & Spencer and Kingfisher Group companies and in his earlier career held both marketing and general management appointments with Thomson Consumer Electronics and Spillers Foods having started his career with Unilever.

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

**There have been a number of changes to the Board since last year which are described in the Executive Chairman’s Review (see page 4) and the Corporate Governance report on pages 30 to 34.**





# Corporate Governance Report

Dear Shareholder,

One of my key responsibilities is to lead the Board and ensure that it exercises objective and informed judgement to create sustainable, long-term shareholder value. This requires having the best team in place to execute and closely monitor business performance and maintain a framework of prudent and effective controls to mitigate risk. The Nomination Committee has clear plans for CEO and Non-Executive succession which are set out below in the report from the Nomination Committee.

The SDL Group is undergoing a significant operational transformation as the Non-Core businesses are divested. Your Board will continue to ensure the Group has the leadership and insights necessary to achieve its ambitions.

The Board is committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group. These elements are critical to business integrity and maintaining investors' trust in SDL.

David Clayton  
Executive Chairman



### Corporate governance statement

The Board is responsible for overall Group strategy and for the delivery of that strategy within a strong corporate governance and corporate responsibility framework. That framework is described in the following pages. The Board of Directors is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('Code') issued by the Financial Reporting Council ('FRC') in September 2014 and which is publicly available at [www.frc.org.uk](http://www.frc.org.uk). From January to September 2015, the Company complied with the provisions of the Code. In October 2015, David Clayton was appointed as Executive Chairman (an interim role combining the roles of Chairman and CEO) following the resignation of Mark Lancaster. This temporary non-compliance is being addressed by the Board and a short list of candidates for the vacancy has been drawn up.

The Board has carried out a robust assessment of the principal risks facing the Group. 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. The system of internal control and risk management is reviewed annually. Throughout the year ending 31 December 2015 and to date, the Group has operated a system of internal control that provides reasonable assurance of effective operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the principal risks facing the Group.

### Leadership

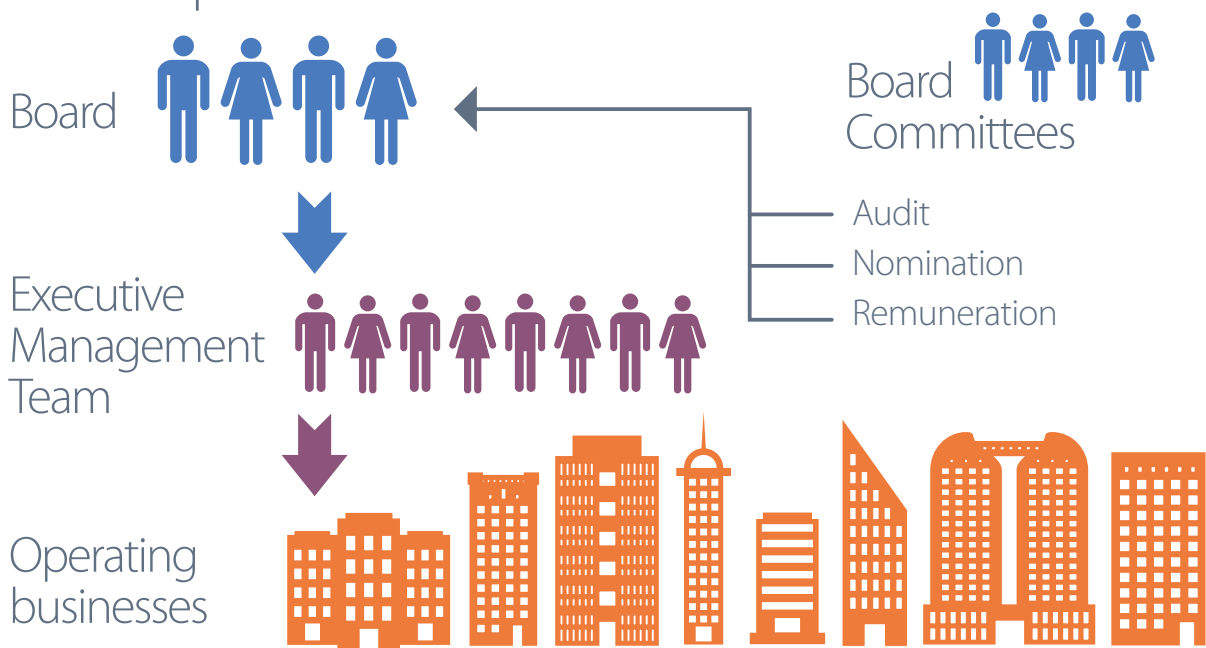
The Board of Directors is responsible for overall Group strategy, for approving major agreements, transactions and other financing matters and for monitoring the progress of the Group against budget. All Directors receive sufficient relevant

information on financial, business and corporate issues prior to meetings and there is a formal schedule of matters reserved for decision by the Board, which includes material asset acquisitions and disposals, granting and varying authority levels of the Chairman and the executive directors, determination and approval of the Group's objectives, strategy and annual budget, investment decisions, corporate governance policies and financial and dividend policies. From January to the end of September 2015 the Board of Directors consisted of the Chairman, two Executive Directors and four Non-Executive Directors. From October 2015 to date one of the Executive Directors resigned and the Chairman took up the interim role of Executive Chairman. All the Directors bring to the Company a broad and valuable range of experience and further details of this together with additional biographical details are set out above. There is a strong non-executive representation on the Board, including the Senior Independent Director, Alan McWalter. This provides effective balance and challenge.

### Board committees

- The Audit Committee, which during the major part of the year consisted of Mandy Gradden (who chairs the Committee), Glenn Collinson and Alan McWalter all of whom are independent Non-Executive Directors. David Clayton resigned from the Committee on 23 October 2015 on his appointment as Executive Chairman. The Board is satisfied that all members of the Committee have recent and relevant financial experience. The Committee meets at least three times a year. Further information on the work of the Audit Committee is given below.
- The Nomination Committee consists of Alan McWalter (who chairs the Committee), David Clayton and Glenn Collinson, ensuring that a majority of the Committee's members are independent Non-Executive Directors. Further information on the work of the Nomination Committee is given below.

### Leadership framework



Governance



- The Remuneration Committee consists of Glenn Collinson (who chairs the Committee), Mandy Gradden and Alan McWalter, all of whom are independent Non-Executive Directors. Further information on the work of the Remuneration Committee is given below.

All Board committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The terms of reference of the Board committees are available on the website ([www.sdl.com](http://www.sdl.com)) and by request from the Company Secretary. The attendance of individual Directors at the regular meetings of the Board and

its Committees in the year is set out below, with the number of meetings each was eligible to attend shown in brackets. Directors who are unable to attend meetings will receive the papers and any comments will be reported to the relevant meeting. Directors have attended a number of ad hoc meetings during the year in addition to the regular Board meetings and have contributed to discussions outside of the regular meeting calendar. Directors also attended several strategy meetings to enable further, more detailed, discussion of the Group's position and future development.

Director	Board	Audit Committee	Nomination Committee	Remuneration Committee
David Clayton, Executive Chairman from 1 October 2015	9(9)	2(2)*	3(3)	–
Chris Batterham, NED	7(9)	–	–	–
Glenn Collinson, NED	9(9)	3(3)	3(3)	7(7)
Mandy Gradden, NED	8(9)	3(3)	–	7(7)
Mark Lancaster, CEO to 1 October 2015	6(6)	–	–	–
Dominic Lavelle, CFO	9(9)	–	–	–
Alan McWalter, SID	9(9)	3(3)	3(3)	7(7)

\* David Clayton also attended the October meeting by invitation.

## Corporate governance highlights

### Board focus during the year

During the year, the Board spent its time considering a wide range of matters.

These included:

- in-depth operational analysis of key businesses;
- operational reports from business areas;
- budgets and long term plans for the Group;
- financial statements and announcements;
- treasury and funding matters
- corporate and social responsibility;
- legal and governance matters
- board committee feedback
- shareholder feedback and reports from brokers and analysts; and
- risk management and controls.

In addition to its regular programme of activities the Board made a number of strategic decisions in the year, which included:

- refocused Group strategy towards language-centric activities;
- identified non-core businesses for divestment;
- reviewed and updated the Group's remuneration structures to provide greater transparency to shareholders and ensuring the business can attract the best skills in the market; and
- succession planning for senior management.

The Directors are responsible for preparing the Annual Report and Financial Statements and consider that, taken as a whole, the Annual Report and Financial Statements are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy.



### Effectiveness and Evaluation

All of the Non-Executive Directors are appointed for fixed terms. They are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues. Since October 2015 and the appointment of David Clayton as Executive Chairman, the Non-Executive Directors meet with him, from time to time, without the presence of the other Executive Director. Prior to October 2015 the Non-Executive Directors met with David Clayton in his role as Chairman.

The Board considers that each of the Non-Executive Directors are independent of the Group and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. It was noted that Chris Batterham has served for more than sixteen years as Non-Executive Director and under the Code is no longer considered to be independent. The Nomination 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 Board in an objective manner. His length of service and resulting experience and knowledge of the Company is of great benefit. Chris Batterham does not serve on any Board Committees. The Nomination Committee will keep his independence under review.

The Board, individual directors and the Board's main committees are reviewed annually, with this year's review being externally facilitated by Lintstock Limited. No issues arose that were required to be addressed but the Board's discussion of the review's output will help to shape the future development of the Group's risk profile.

The Non-Executive Directors meet to review the performance of the Chairman (or Executive Chairman). The performance of the other Executive Director is appraised by the Chairman (or Executive Chairman). The Chairman appraises the performance

of the Non-Executive Directors, identifying any development opportunities or training needs.

Following any appointment to the Board, a tailored induction is developed which includes a strategic and financial overview as well as high level introductions to all divisions and functions of the Group.

On-going development opportunities for all Directors will be provided, as required. Any training will take account of individual's skill sets and be designed to meet the needs of each Director as well as the collective requirements of the Board and its Committees.

### Re-election

All of the Directors holding office as at 31 December 2015 were reappointed at the Annual General Meeting on 27 April 2015 and all of them have submitted themselves for re-election at the forthcoming Annual General Meeting.

### Professional Advice

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are complied with. Both the appointment and removal of the Company Secretary are matters for the Board as a whole.

All Directors are able to take independent professional advice in the furtherance of their duties whenever it is considered appropriate to do so and have access to such continuing professional development opportunities as are identified as appropriate in the Board appraisal process.

### Composition & Succession

The composition of the Board and its Committees is kept under review, with the aim of ensuring that there is an appropriate balance of power and authority between Executive and Non-

## Diversity

Balance of Non-Executive Directors : Executive Directors



Executive Chairman



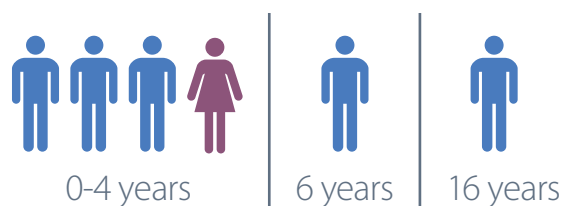
Executive Director



Non-Executive Directors



Male : Female



Length of tenure



Executive Directors and that the Directors collectively possess the skills and experience necessary to direct the Company and the Group's business activities.

The independence of the Directors and whether there are any potential conflicts of interest are assessed and kept under review. It was concluded by the Board that all the Non-Executive Directors were independent, notwithstanding the case of Chris Batterham (who did not participate in the relevant discussions) that he had served on the Board for more than nine years. The Board considered the matter carefully and decided that Chris Batterham continues to demonstrate the qualities of independence and judgement in carrying out his role, supporting the Executive Directors and senior management in an objective manner.

More than 50% of the Board is made up of independent Non-Executive Directors.

There is an established process for external appointments through the Nomination Committee. Ultimately, the appointment of any new Director is a matter for the Board as a whole. Executive Director appointments are based upon merit and business need. Non-Executive appointments are based upon the candidates' profiles matching those agreed by the Nomination Committee. In all cases, the Board approves the appointment only after careful consideration. Succession planning for the Board has been reviewed and developed during the year and further detail is provided in the Nomination Committee report.

The Human Resources department has a wider succession development plan for senior management roles across the Group, to prioritise those roles which are likely to require recruitment within the next five years. This data has been considered against internally identified individuals, with high potential and the capability to fulfil those roles as they become vacant, to ensure that succession requirements can be met.

Internal individuals will be developed for future senior roles and this will be complemented with external recruitment at a senior level where necessary, to balance the required skills and experience of the senior management team and ensure continuing success in the future.

The letters of appointment of the Non-Executive Directors will be available for inspection at the Annual General Meeting.

### Diversity

Board candidates are considered on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

No fixed quota is applied to decisions regarding recruitment, rather the Nomination Committee considers capability and capacity to commit the necessary time to the role in its recommendations to the Board. The intention is the appointment of the most suitably-qualified candidate to complement and balance the current skills, knowledge and experience on the Board, seeking to appoint those who will be best able to help lead the Company in its long-term strategy.

The Board is well-placed by the mixture of skills, experience and knowledge of its Directors to act in the best interests of the Company and its shareholders.

### Relations with shareholders

The Board encourages communication with the Company's institutional and private investors.

The Annual General Meeting provides an opportunity for Directors to report to investors on the Group's activities, to answer their questions and receive their views.

The Chairman, Senior Independent Director, Committee Chairs and CFO have a programme of meetings with institutional investors, individual shareholder groups and financial analysts during the course of the year to discuss the business performance and strategy. Investors' comments are communicated to all members of the Board, enabling them to develop an understanding of the major shareholders' views of the Group and these are considered in determining or varying the Group's approach to a particular matter.

From time to time, other presentations are made to institutional investors and analysts to enable them to gain a greater understanding of important aspects of the Group's business. The Chairman, Senior Independent Director and the Chairman of the Remuneration Committee hold meetings with leading shareholders to discuss remuneration policies and other corporate governance matters and the comments received are reported to the Board and considered by the Remuneration Committee in determining or varying the Group's approach to executive compensation.



# Audit Committee



## Membership in 2015

**Mandy Gradden** – Chairman  
**David Clayton** – retired from the committee on 23 October 2015  
**Alan McWalter**  
**Glenn Collinson**

## Membership in 2016

**Mandy Gradden** – Chairman  
**Alan McWalter**  
**Glenn Collinson**

Dear Shareholder,

The year ended 31 December 2015 has seen continuing change, both in the Group's businesses and in the environment in which it operates. As a Committee, our responsibility is to ensure that information published by the Group properly presents its activities to stakeholders in a changing landscape, as well as overseeing the effective delivery of both external and internal audit services.

During the year the Committee met three times and its principal activities were as follows:

- The review of the annual and half-yearly financial statements to ensure these properly present the Group's activities in accordance with accounting standards, law, regulations and market practice. This includes ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
  - A review with management and the external auditors of material areas in which significant judgements have been applied.
  - Clarity of the disclosures in the Annual Report concerning one-off items including goodwill impairment.
- A review of the impact of functional and presentational currencies used by the Group.
- A review of the effectiveness of the Group's financial controls and risk management.
- Consideration of the Group's readiness to address forthcoming accounting changes which will affect it, principally IFRS 15 and the requirement to provide a viability statement in the Annual Report.

Looking forward to 2016, the Committee will continue to:

- work with the Board providing advice on the assessment, management and mitigation of the principal risks facing the Group;
- develop new non-audit fee policies and procedures to ensure the Group remains compliant with the nature and proportion of non-audit work awarded to the Group's auditors; and
- ensure the Group is ready to adopt new accounting policies when required e.g. IFRS 15.

Mandy Gradden  
Audit Committee Chairman



## Committee role and responsibilities

The Committee is responsible for:

- assessing the integrity of the Group’s financial reporting and satisfying itself that any significant financial judgements made by management are sound;
- evaluating the effectiveness of the Group’s internal controls, including internal financial controls;
- scrutinising the activities and performance of the internal and external auditors, including monitoring their independence and objectivity; and
- overseeing the adequacy of the Group’s whistleblowing arrangements.

## Membership

All the members of the Committee are independent Non-Executive Directors, listed below. To preserve the independence of the Committee, David Clayton stepped down in October 2015 when he took up the interim role of Executive Chairman.

Mandy Gradden has chaired the Committee since July 2013. She is a Chartered Accountant and currently holds the position of Group Chief Financial Officer of the media group Ascential plc. The Board considers that Mandy Gradden has recent and relevant financial experience, as required by the Code. All of the Committee members have significant current executive experience in various industries. 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 Chief Financial Officer, the Executive Chairman/Chief Executive Officer, the KPMG lead audit partner, other representatives from KPMG and other senior management attend meetings by invitation.

The Committee met three times during the year ended 31 December 2015. Attendance was as follows:

	Number of meetings eligible to attend	Number of meetings attended
Mandy Gradden - Chairman	3	3
David Clayton*	3	3
Glenn Collinson	3	3
Alan McWalter	3	3

\*David Clayton resigned from the Committee on 23 October 2015.

Since the end of the year, the Committee has met once (10 March 2016) and all members attended.

Outside of the formal meetings described here, the Chairman meets regularly with KPMG, the Chief Financial Officer and other SDL senior management.

### Committee Meeting Date Key Agenda Items

5 March 2015	Annual results <i>Significant accounting issues, key judgments &amp; estimates</i> External auditor’s report Review of preliminary results and draft announcement Draft Annual report	Review of Effectiveness of External Audit Review of the Internal audit organisation Non-audit fees Review of corporate structure
27 July 2015	Interim results <i>Significant accounting issues, key judgments &amp; estimates</i> External auditor’s interim report Review of interim preliminary results and draft announcement	Key Judgments Review of internal audit site visit findings Annual review of internal controls Treasury/Foreign exchange review
23 October 2015	External auditor Audit Strategy report Group Tax matters review with management Internal audit report	IRFS 15- New Revenue Standard Corporate structure update and distributable reserves review
10 March 2016	Annual results <i>Significant accounting issues, key judgments &amp; estimates</i> Viability statement review External auditor’s report Review of preliminary results and draft announcement	Draft Annual report Non Audit fees Distributable reserves review External audit assessment





## Meetings and Activities in 2015

Only the members of the Committee have the right to attend Committee meetings, however the Committee invites the external auditor, KPMG LLP ("KPMG") to every meeting. Executive directors, senior members of management and advisors are invited to attend meetings as appropriate. The Committee considers that the presence of these attendees does not influence or restrict the Committee's open deliberation of matters or the Committees' 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.

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

As part of the formal annual Board evaluation, the Committee's effectiveness was subject to external review in 2015/2016. Details of the process can be found on page 33. The Committee's composition was reviewed and it has been confirmed that there is sufficient expertise and resource to fulfil its responsibilities effectively.

The significant judgments considered by the Committee in relation to the 2015 accounts were:

**Impairment of goodwill and intangibles:** This is an area of focus for the Committee given the materiality of the Group's goodwill and intangibles balances (£163.1 million at 31 December 2015 (£202.6 million at 31 December 2014)) compared to the market capitalisation of the Group and the inherent subjectivity in impairment testing.

In the final quarter of 2015 the Board carried out a strategic review of the Group's operations which resulted in a restructuring of the business. An impairment of £33.3 million has been recorded against goodwill. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, this was one of the key judgemental areas for management and of focus for the external auditors.

The judgements in relation to goodwill impairment continue to relate primarily to the assumptions underlying the calculation of the value in use of the business, being:

- the achievability of the long-term business plan;
- the modelling assumptions underlying the valuation process including revenue growth rates and discount rates applied.

See notes 9 and 11 "Intangible assets" and "Impairment Testing of Goodwill" for further detail.

The Committee received detailed reporting from management and challenged the appropriateness of the assumptions made including:

- the consistent application of management's methodology;
- the achievability of the business plans;
- assumptions in relation to growth in the businesses; and
- discount rates.

A separate in-depth review on setting discount rates for impairment purposes was also conducted in the year. This remains an area of audit focus and KPMG provided detailed reporting on these matters to the Committee including sensitivity analysis.

The adequacy of the Group's disclosures in respect of impairment testing was assessed and evaluated whether the disclosures properly reflect the risks inherent in the key assumptions and the requirements of relevant accounting standards.

**Technology Revenue Recognition:** There is a key area of judgment in the timing of this recognition and resulting deferred revenue on licenced software and related services. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period.

An in-depth review of revenue accounting was undertaken by management and presented to the Committee during the year. Management outlined the Group's approach to revenue recognition, particularly for more complex enterprise transactions.

The Group has a detailed policy on revenue recognition for each category of revenue: Services, Licence and Professional Services. This includes the application of rules relating to the allocation of fair values between these categories.

The Committee is comfortable that management have been appropriately balanced where contract clauses require judgment and concluded that the timing of recognition continues to be in line with IFRS requirements.

## Internal control and risk management

The Board considers that the Group's systems provide information which is adequate to permit the identification of key risks to its business and the proper assessment and mitigation of those risks.

A review by the Audit Committee and the Board of the effectiveness of the Group's risk management and internal control systems is monitored on an ongoing basis.

The Committee monitors, reviews and challenges the effective operation of risk management and control processes, including the results of audits and reviews undertaken by the Internal Audit program (see below) on an ongoing basis as part of the system of risk management and internal control.

The Audit Committee reviewed and challenged management's annual review of internal controls in July 2015. As part of this review, management has reported to the Audit Committee that it has not identified any weaknesses in controls that would have a material effect on the Group's business. The Audit Committee has reviewed and accepted the processes adopted by management in this respect and accepted its conclusions.



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

**Internal audit program:** The Group Finance Director heads up the internal audit function. Specific business units are selected for audit of compliance risks and vulnerabilities in consultation with the Audit Committee. Reports received from this program summarised the audits undertaken during the period under review, the key findings of those audits, any recommendations to address the findings and the progress made by the site on implementing the recommendations. The Committee agreed to continue to resource the internal audit function internally. At the beginning of the year the Committee considered and approved the site visit program for 2015.

**Tax risk reviews:** The Committee received and considered presentations from the management 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.

**Foreign exchange review:** The Committee received and considered presentations from management on the Group currency cash flows and net earnings exposures. The Committee approved the Group's foreign exchange policies and procedures.

**Operational reviews:** regular meetings of the executive team with the executive directors to review operational aspects of the business;

- Financial reporting: a Group-wide system of financial reporting, budgeting and cash forecasting and control through which financial accounts are prepared and submitted to the Board monthly;
- Financial data verification: regular preparation and, when appropriate, update of profit and cash flow forecasts, to monitor actual against expected performance;
- System reviews and transformation projects: regular meetings of the Board and Audit Committee at which financial information is reviewed and business risks are reported upon and monitored.

### Internal Audit

At the October 2015 Committee meeting, the need for and potential scope of, an 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 independent internal audit function is required at this time. These arrangements will be kept under review.

### External Auditors and independence

KPMG have been auditors to the Group since 2010. 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.

The Committee reviews the performance of the external auditor taking into account their performance of the agreed audit plan and any amendments, input from management and responses to questions from the Committee and audit findings reported to the Committee.

The Committee:

- met with key members of the KPMG audit team to discuss the 2015 audit plan and agree areas of focus.
- reviewed KPMG reports on the scope of the 2015 audit and any material issues identified.
- was also briefed by KPMG on material accounting items, where significant judgement is needed.

The Committee has concluded that the external audit process operated effectively throughout 2015 and KPMG continue to prove effective in their role as external auditor.

During the year, the Committee reviewed the processes that the external auditor has in place to safeguard their independence, and received a letter from the external auditor confirming that, in their opinion, they remained independent. The external auditor is permitted to undertake non-audit services. The Committee approves all non-audit work greater than £20,000. Such proposals must be justified and, if appropriate, be subject to tender. Any ongoing non-audit services provided by the auditors and the fees incurred are reviewed regularly.

Non-audit services provided by the auditor can, because of their size or nature, give rise to threats to the auditor's objectivity and independence. The auditors, however, may be engaged to provide a non-audit service where:

- The skills and experience of the auditor make them the most suitable supplier of the non-audit service;
- There are safeguards in place that eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the provision of the particular service by the auditor; and
- The fees incurred, or to be incurred, for non-audit services in aggregate (and for any substantial individual service) relative to the audit fee would not be perceived by a reasonable and informed third party as giving rise to loss of independence on the part of the auditor.

In considering whether it was appropriate to engage the auditor to provide the non-audit service, management considered the extent of the threats, if any, to the auditor's objectivity and independence in the conduct of the audit. In 2015, the Group has undertaken corporate rationalisation exercises in the United States, the Netherlands, Belgium and France. In each case, management considered which advisors were best placed to provide the most efficient and effective services to the Group. In the United States and Belgium, the Group considered that KPMG were the most suitable supplier and that there was no significant threat to their independence for the provision of these services. Approval for this work to be awarded to KPMG was sought and received from the Committee.

The Committee are aware of the EU and UK non-audit fee restrictions coming into force in July 2016. The Committee are awaiting the final interpretation of these regulations and policies and procedures will be updated once this guidance has been issued.

During the year, the fees paid to the auditor were £393,000 (2014: £354,000) for audit services and £621,000 (2014: £351,000) for non-audit services.



# Nomination Committee



## Membership in 2015

Alan McWalter – Chairman  
David Clayton  
Glenn Collinson

## Membership in 2016

Dear Shareholder,

On behalf of the Board, I am pleased to present the Nomination Committee Report for the year ended 31 December 2015.

2015 was a significant and busy year for the Committee. The main activities of the Committee during the year included:

- Review of the size and composition of the Board including necessary knowledge and experience.
- Considered succession planning for Directors and senior management.
- Identified candidates for CEO and a new Non-Executive Director.
- Reviewed the time requirements of Non-Executive Directors.
- Reviewed the results of the Board performance evaluation.

Additional information on the activities of the Committee, including the details of the process leading to the appointment of the new CEO and the services provided by Norman Broadbent and Spencer Stuart, executive search agencies, are set out in this report.

There were three meetings held during the year and, after each Committee meeting, I reported to the Board on the key issues discussed during the meeting. A number of informal discussions were also held between the Committee members.

The Committee's terms of reference are available on the Company's corporate website [www.sdl.com](http://www.sdl.com).

Alan McWalter  
Nomination Committee Chairman  
15 March 2016



## Role of the Nomination Committee

The Committee is responsible for considering the size, structure and composition of the Board, the retirement and appointment of additional Directors, and making appropriate recommendations so as to maintain an appropriate balance of skills and experience on the Board.

The Committee reviews the succession requirements of the Board and senior management (including the need for diversity) and makes recommendations to the Board as appropriate. The table below sets out Committee membership and meeting attendance.

## Membership in 2015

The Committee consists of Alan McWalter (Chairman), David Clayton and Glenn Collinson.

Only members of the Committee have the right to attend meetings, however senior management 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.

Membership in 2015	March 2015	October 2015	December 2015
Alan McWalter (independent Non-Executive Director) – Chairman	✓	✓	✓
David Clayton (Executive Chairman) Non-Executive Director up to 1 October 2015 when he took on the role of Executive Chairman	✓	✓	✓
Glenn Collinson (independent Non-Executive Director)	✓	✓	✓

Since the end of the year the Committee has met once (March 2016) and all members attended.

## Principal Activities in 2015

The Committee focused on executive succession planning following Mark Lancaster’s resignation and discussed this topic with the Board and the Group HR Director and in private sessions of the Committee. The Committee set out the types of skills, attributes and experience required of a new CEO, which it captured in its briefing to executive search agency, Spencer Stuart, who identified potential candidates. Committee members then interviewed candidates for the role and after careful consultation with all Board members made a recommendation on the appointment to the Board. The process is now in its final stages.

Similarly, a search process was conducted for a Non-Executive Director using the executive search agency, Norman Broadbent, and this too is in its final stages.

There was a major operational review carried out in late 2015 and a strategy, refocused on core business, was approved by the Board in January 2016. As part of this review a new organisational structure was agreed based on three continuing business units (Language Services, Language Technology and Global Content Technologies) and, as a consequence, there were a number of changes in senior management to support and lead this new structure.

We were delighted to be able to promote two new senior leaders from within the Group with significant industry relevant experience and believe they will be pivotal in delivering our strategy over the medium term.



## Review of non-executive director performance

Over the course of 2015, the Chairman held meetings with the Non-Executive Directors to review their performance and contribution to the Board. This covered attendance, preparation for and contribution at meetings, their knowledge and understanding of the business and any training and development requirements. Following this review, it was concluded that each Non-Executive Director continued to make an effective contribution to the Board.

## Diversity

The Committee and the Board have sought to ensure that appointments are of the best candidates and are based on merit, with due regard for the benefits of diversity on the Board (while also meeting the requirements of the Equality Act 2013). The Company does not currently publish specific diversity targets but in practice, it has created a balanced Board and Executive Management Team and continues to work to ensure this is replicated across the entire business, in particular in relation to gender diversity.

Further information regarding diversity can be found in the Corporate Governance Report.

## Future plans

In the year ahead the Committee will continue to assess what enhancements should be made to the Board's and Committees' composition and will continue to monitor developments to ensure the Company remains at the forefront of good governance practices.



# Directors' Remuneration Report

SDL PLC Year Ended 31 December 2015

This report covers the activities of the Remuneration Committee for the year ended 31 December 2015 and sets out the remuneration policy and remuneration details for Executive and Non-Executive Directors. Below is the Annual Statement from the Chair of the Remuneration Committee followed by the Remuneration Policy and the Annual Report on Remuneration.

Our Remuneration Policy, set out on pages 44 to 52, will be put to shareholders for approval in a binding vote at the AGM on 28 April 2016 at the same time as separate resolutions to approve a new Long Term Incentive Plan and a new Deferred Share Bonus Plan, under which we intend to make awards from 2016. The Annual Report on Remuneration (set out on pages 53 to 58) describes how this policy is planned to be implemented for the year ahead, together with details of remuneration paid in the financial year. This report together with the Annual Statement will be subject to the usual advisory vote at the 2016 AGM.

## Annual statement

### Dear Shareholders

I am pleased to present, on behalf of the Board, the Directors' Remuneration Report for the year ended 31 December 2015, which summarises the Group's performance and the resulting remuneration for the year.

2015 was a year of change in our Executive Board as Mark Lancaster, founder of the Company in 1992, stepped down as CEO on 1 October 2015 and ceased employment on 31 October 2015. As we continue our global search for a new CEO to take the Company into the next phase of its development, David Clayton has temporarily assumed the role of Executive Chairman (from Non-Executive Chairman) and Dominic Lavelle's role as Chief Financial Officer has taken on greater ongoing prominence.

In this interim period, the need for continuity is of paramount importance and, with this in mind, the Board is pleased that executive responsibilities are currently being undertaken by existing Directors.

David Clayton is working in a full-time capacity to ensure this continuity and to lead the Company during this transition. To reflect his strong contribution, his salary has been set at £400,000 p.a. with an annual bonus of 50% on-target and capped at 62.5% of base salary. Because a new, permanent CEO is expected to be recruited during the course of the year, he is not, however, eligible to an award under the Company's Long Term Incentive Plan.

Dominic Lavelle's role has significantly broadened since 1 October 2015 to include additional responsibilities such as

leading the restructuring announced on 20 January 2016. Dominic's overall importance to the Company at a time of significant change has increased and the Board is particularly pleased by the leadership he has shown since the change in the Executive Board. Reflecting this, his salary was increased to £310,000 effective from 1 October 2015 (previously £280,000). His next salary review will be in late 2016, effective from 1 January 2017. Dominic's maximum annual bonus in 2016 will remain unchanged at 150% of salary and his LTIP award for 2016 will be increased to 125% (previously 100%).

The Committee considers it essential that our executive reward policy takes account of the Company's complexity and global presence, that it appropriately rewards our senior management team and remains fit for purpose in the context of risk management and recruiting a new CEO. In this regard it is important that our policy and, in particular, the individual grant limit in our LTIP gives us sufficient flexibility to attract top global leaders.

Having received and incorporated the views of leading shareholders and shareholder bodies through an extensive shareholder consultation process, we will be seeking approval for a new remuneration policy at the 2016 AGM. The Committee is conscious of good practice and therefore the structure of pay will continue to be in line with UK norms and, going forward, the policy will include additional good practice features such as bonus deferral, a post-vesting holding period, recovery and withholding provisions and a share ownership guideline.





## Remuneration policy and implementation for 2016

The key changes being proposed for Executive Directors are:

### Annual bonus:

- The annual bonus opportunity shall remain unchanged at 150% of salary. Any bonus above 100% of salary will need to be deferred in shares and subject to a two-year holding period.
- Greater flexibility will be available on the choice of performance metrics each year subject to the majority being on financial objectives. The 2016 metrics will be revenue, profit before tax, amortisation and one-offs, personal objectives.
- Recovery and withholding provisions will apply to both the cash and deferred bonus elements.

### Long-Term Incentive Plan:

- It is proposed that the individual limit is increased from 150% to 250% of salary for the CEO, whilst retaining the existing cap of 150% of salary for other Executive Directors.
- The CFO will receive an award with a face value of 125% of salary in 2016.
- The Committee will very carefully review the LTIP performance targets that will be set for each LTIP award, in light of the increased LTIP award policy limits, to ensure that they are appropriately stretching. For example, as described below, the EPS growth targets for the 2016 LTIP award have been significantly increased in comparison with recent years' awards.
- Greater flexibility on the choice of metrics will be introduced in future years to support the Company's medium term strategy, with at least one third on relative TSR, although the 2016 award will continue to use TSR and EPS metrics, with an equal weighting on each.
- For the 2016 award, TSR will be measured against the constituents of the FTSE Small Cap Index (excluding Investment Trusts) over the period 2016-2018 inclusive, with no vesting below the median of the index and 100% vesting at the upper quartile (and above) of the index. Under the EPS component, nothing will vest if 2018 adjusted EPS is less than 27p; 25% will vest for 2018 adjusted EPS of 27p rising up to full vesting for 2018 adjusted EPS of 39p. A post-vesting holding period of 2 years will be introduced.
- Recovery and withholding provisions will be introduced.

### Share ownership:

- A 200% of salary share ownership guideline will be introduced, where it is expected that Executive Directors build and maintain a holding of shares to the value of at least 200% of salary within 5 years of the date of adoption of the 2016 Remuneration Policy or on appointment where later.

No change is proposed to Executives' benefits or pension arrangements.

Cognisant of investors' continued focus on executive pay restraint, the Committee has considered these proposals very carefully and is well aware of the significant increase to the LTIP award limit. However, the Committee considers that a higher long term opportunity is essential, particularly in light

of the international search for a new CEO. When considered in context of the addition of several best practice features we believe the revised policy is fair and reasonable.

## Performance and Remuneration for 2015

As described in the Strategic report, 2015 was a year of good progress for our Language Services business with its strong increase in profitability underpinning a 24.9% year-on-year increase in overall Group profit before tax, amortisation and one-offs. However, the performance of the technology business did not meet expectations and meant that the sales bookings growth target for the Group was missed.

Because of this, the multiplier on the annual bonus plan based on sales bookings growth was zero, resulting in zero bonuses as calculated from the revenue, profitability and sales bookings growth targets. However, in the case of Dominic Lavelle, his performance during 2015 was at such a high level that we decided to exercise the discretion allowed in the policy in exceptional situations where the calculation of annual bonus does not reflect individual contribution. Having considered this matter very carefully, we awarded Dominic a cash bonus for 2015 of £100,000. This bonus was around 23% of his maximum opportunity or 65% of the cash bonus he received in 2014 and we felt that this was within the range indicated as acceptable during the consultation we had with leading shareholders.

The LTIP award in 2013 was assessed against its performance conditions at the end of 2015. Because the TSR growth over the 3 year performance period was below the reference index, the award lapsed in full for all recipients.

When Mark Lancaster resigned as CEO on 1 October 2015, the Company agreed with him the compensation on leaving that was announced on the Company's website on 5 October 2015, and is repeated below on page 55. Reflecting his founder status and long service with the Company, the Committee treated Mark as a good leaver for his outstanding LTIP awards. His 2013 award lapsed (as set out above) and, in line with good practice, his other awards were tested for performance and time pro rating was applied.

The Committee is satisfied that the incentive outcomes detailed above are reflective of the Company's performance.

### Shareholders' views

The Committee has carried out an extensive shareholder consultation exercise on the proposed arrangements and is pleased with the constructive feedback and the level of support received. The Committee continues to take an active interest in shareholders' views and looks forward to maintaining an open and transparent dialogue in the future.

The new policy will be put to a binding shareholder vote, alongside separate resolutions to approve the new Long Term Incentive Plan, a deferred share bonus plan and the usual resolution to approve the Remuneration Report. I hope you will be able to support our proposals at the 2016 AGM.

Glenn Collinson  
Remuneration Committee Chairman  
15 March 2016



# Remuneration Policy Report

This part of the Directors' Remuneration Report sets out the remuneration policy for the Company and has been prepared in accordance with the Companies Act 2006 and on the basis described in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 and the UKLA's Listing Rules. The policy has been developed taking into account the principles of the UK Corporate Governance Code and the voting guidelines of major UK institutional investor bodies.

This Remuneration Policy will be put to a binding shareholder vote at the AGM on 28 April 2016. If the revised Policy is approved, it will take immediate effect and it is currently intended that it will apply for the three year period following approval.

Details of how the Company will implement the Policy are provided in the Annual Report on Remuneration section starting on page 53.

## Remuneration Policy objectives and proposed changes

The objective of the remuneration policy is to provide remuneration packages to each Executive Director that will:

- Align rewards with the interests of shareholders;
- Motivate and encourage superior performance;
- Allow the Group to retain the talent needed to execute its business strategy;
- Enable the Group to be competitive when recruiting appropriately skilled and experienced management; and
- Ensure that the overall package for each Director is linked to strategic objectives of the Group.

The Committee is conscious of good UK governance and practice and therefore believes the structure of pay should include some additional features of market best practice. As a

result of the 2015 remuneration review, the key policy changes being proposed to our remuneration policy for Executive Directors are:

### **Annual bonus:**

- Any bonus above 100% of salary will need to be deferred in shares and subject to a two year holding period;
- Greater flexibility on the choice of performance metrics each year will be introduced subject to the majority being on financial objectives;
- Recovery and withholding provisions will be introduced and will apply to both the cash and deferred bonus elements.

### **Long-Term Incentive Plan:**

- The individual limit is increased from 150% to 250% of salary for the CEO, whilst retaining the existing cap of 150% of salary for other executive directors;
- Greater flexibility on the choice of metrics each year will be introduced to support the Company's medium term strategy, with at least one third on relative TSR;
- A post-vesting holding period of 2 years will be introduced;
- Recovery and withholding provisions will be introduced.

### **Share ownership:**

- A 200% of salary share ownership guideline will be introduced, where it is expected that Executive Directors build and maintain a holding of shares to the value of at least 200% of salary within 5 years of the date of adoption of the 2016 Remuneration Policy or on appointment where later.



## The remuneration policy for Directors

Our policy is designed to offer competitive, but not excessive, remuneration structured so that there is a significant weighting towards performance-based elements. A significant proportion of our variable pay is delivered in shares with deferral and holding periods being mandatory, and with appropriate recovery and withholding provisions in place to safeguard against overpayments in the event of certain negative events occurring. The table below provides a full summary of the policy elements for the Company's Directors.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess Performance
Base salary	<p>Essential to recruit and retain executives of a high calibre.</p> <p>Reflects an individual's experience, role and performance.</p>	<p>Salaries are paid monthly. They are reviewed annually and normally fixed for 12 months commencing 1 January.</p> <p>In deciding appropriate levels, the Committee takes into account:</p> <ul style="list-style-type: none"> <li>The role, experience, responsibility and performance (individual and Group);</li> <li>increases applied to the broader workforce; and</li> <li>relevant market information for similar roles in broadly similar UK listed companies and companies of a similar size.</li> </ul> <p>Periodic account of practice in comparable companies in terms of size and complexity will be taken (e.g. comparable technology sector peers and pan-sector companies of a broadly similar size).</p> <p>The Committee considers the impact of any salary increase on the total remuneration package prior to awarding any increases.</p>	<p>There is no prescribed maximum.</p> <p>Generally, the Committee is guided by average increases across the workforce. However, higher increases (in percentage of salary terms) may be awarded on occasion, for example (but not limited to):</p> <ul style="list-style-type: none"> <li>where an individual is promoted or has been recruited on a below market rate,</li> <li>in relation to a change in size, scale or scope of an individual's role or responsibilities or in the size or complexity of the business or where salaries have fallen significantly below mid-market levels.</li> </ul>	<p>The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates.</p>
Benefits	<p>To provide competitive benefits to help recruit and retain executives.</p>	<p>Benefits include:</p> <ul style="list-style-type: none"> <li>Car or car allowance</li> <li>Private medical insurance</li> <li>Life assurance</li> <li>Health insurance</li> </ul> <p>Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees.</p> <p>Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit. Relocation or related expenses may be offered including tax equalisation to ensure the executive is no better or worse off.</p> <p>Executive Directors may be offered other benefits if considered appropriate and reasonable by the Committee.</p>	<p>There is no prescribed maximum as costs may vary in accordance with market conditions.</p> <p>HMRC tax-approved limits will apply to all employee share schemes.</p>	n/a



Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess Performance
Pension	To provide retirement benefits in line with the overall Company policy.	Directors are eligible to receive employer contributions to the Company's pension plan (which is a defined contribution plan) or a salary supplement in lieu of pension benefits or a mixture of both.	12% of salary p.a.	n/a
Annual bonus	To motivate executives and incentivise the achievement of annual financial and/or strategic business targets. To ensure further alignment with shareholders through the retention of deferred equity.	<p>Bonus payment is determined by the Committee after the year end, based on performance against targets set prior to the start of the year. Targets are reviewed annually.</p> <p>Bonuses up to 100% of salary will be payable in cash. Any bonus earned in excess of 100% of salary will normally be deferred in shares. Deferred shares vest after two years subject to continued employment but no further performance targets.</p> <p>A dividend equivalent provision allows the Committee to pay dividend equivalents on deferred shares (in cash or shares) up to the date of vesting. This may assume the reinvestment of dividends on a cumulative basis.</p> <p>Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions in the event of financial misstatement, error or gross misconduct.</p> <p>Participation in the bonus plan, and all bonus payments, are at the discretion of the Committee.</p>	The maximum award under the annual bonus scheme is 150% of salary.	<p>Performance metrics are selected annually based on the Company's strategic objectives. The bonus will be based on the achievement of an appropriate mix of challenging financial, strategic or personal targets. Measures and weightings may change each year to reflect any year-on-year changes to business priorities.</p> <p>Financial measures will represent the majority of bonus, with clearly defined non-financial targets representing the balance (if any).</p> <p>For financial metrics, a sliding scale of targets is normally set by the Committee, taking into account factors such as the business outlook for the year.</p> <ul style="list-style-type: none"> <li>• Nothing is payable for performance below a minimum level of performance.</li> <li>• Up to 25% of this part of the bonus is payable for meeting a demanding target with maximum bonus payable for achieving a more demanding target.</li> <li>• Where non-financial targets operate, it may not always be practicable to set targets on a graduated scale. Where these operate, not more than 25% will be payable for achieving the threshold target.</li> </ul> <p>The metrics, and proportion of bonus that can be earned against each metric, will be disclosed in the Annual Remuneration Report each year for the following year.</p> <p>The calculation of the annual bonuses from the actual performance achieved against each bonus target will be described retrospectively each year in the Annual Remuneration Report.</p>



Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess Performance
2016 Long-Term Incentive Plan	<p>Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer term.</p> <p>Provides long-term retention.</p> <p>Aligns the interests of the Executives and shareholders.</p>	<p>Awards are normally granted annually in the form of nil cost options, conditional share or forfeitable share awards. Participation and individual award levels will be determined annually at the discretion of the Committee within the policy.</p> <p>Award levels will be subject to the individual limit and will take into account matters such as market practice, overall remuneration, the performance of the Company and the Executive being granted the award.</p> <p>Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment.</p> <p>Awards are subject to recovery and withholding provisions in the event of financial misstatement, error or gross misconduct.</p> <p>A holding period will apply under which all participants are required to retain their net of tax vested awards for two years post vesting.</p> <p>A dividend equivalent provision allows the Committee to pay dividend equivalents, at the Committee's discretion, on vested awards (in cash or shares) up to the point of exercise or sale (but no later than the expiry of the holding period). This may assume the reinvestment of dividends on a cumulative basis.</p>	<p>The maximum annual award that can be made in any given financial year is 250% of salary for the Chief Executive Officer and 150% of salary for other Executive Directors.</p>	<p>A combination of financial performance (amongst EPS growth, EBITDA to cash conversion, cash flow, return on invested capital or any other of the Company's Key Performance Indicators which may change during the policy window) and relative total shareholder return may be used to ensure that rewards are linked to long-term shareholder value creation. The financial metrics chosen from the above list each year will be those considered by the Committee at the time of each grant to be most likely to support the Company's long-term growth strategy.</p> <p>The use of TSR aligns with the Company's focus on shareholder value creation and rewards management for outperformance of sector peers. At least one third of an award will be subject to a relative TSR measure each year. No part of the award subject to relative TSR will pay out until the return is at least equal to the median of the peer group.</p> <p>Where EPS growth is used it will continue to be based on profit after share based payment charges to executives and employees are deducted.</p> <p>Performance below the threshold target will result in zero vesting for each performance measure. No more than 25% of the award vests for achieving threshold performance. 100% of the award vests for maximum performance. There is no opportunity to retest.</p> <p>In determining the target range for a financial metric, the Committee ensures it is challenging by taking into account current and anticipated trading conditions, the long-term business plan and external expectations.</p> <p>Performance periods will normally start from the beginning of the financial year in which the award is made.</p> <p>See Note 1.</p>



Element	Purpose and link to strategy	Operation	Maximum opportunity	Framework used to assess Performance
2011 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.	<p>The Company will make no future grants under this plan if this remuneration policy and the 2016 LTIP are approved by shareholders at the 2016 AGM.</p> <p>Awards of share-based incentives are made annually, vesting over 3 years. Vesting is subject to comparative Total Shareholder Return and Earnings per Share 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.</p>	Maximum award of 150% of salary.	<p>Performance period is 3 years.</p> <p>TSR – must at least match that of the FTSE 250 index over the performance period.</p> <p>EPS – must increase by at least inflation + 3% per annum during the performance period by reference to the Consumer Prices Index.</p>
Non-Executive Chairman and Non-Executive Directors' fees	To attract and retain a high quality Chairman and experienced Non-Executive Directors.	<p>The Non-Executive Chairman receives a single fee covering all his duties. The Non-executive Directors receive a basic fee and additional fees payable for chairing the Audit, Nomination and Remuneration Committees and for performing the Senior Independent Director role.</p> <p>The Chairman and Non-Executive Directors shall be entitled to have reimbursed all expenses that they reasonably incur in the performance of their duties, including those expenses that have been deemed to be taxable benefits by HMRC (or equivalent body). This includes any personal tax that may become due on those expenses.</p> <p>The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are reviewed from time to time against broadly similar UK listed companies and companies of a similar size.</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.</p>	There is no prescribed maximum, however, any increase to fees will be considered in light of the expected time commitment in performing the roles, increases received by the wider workforce and market rates in comparable companies.	Neither the Non-Executive Chairman nor the Non-Executive Directors are eligible for any performance related remuneration.
Share ownership guidelines	To align the interests of management and shareholders and promote a long-term approach to performance.	Executive Directors are expected to build and maintain a holding of shares to the value of at least 200% of base salary after five years from the latter of appointment date or approval date of this policy.	n/a	n/a





Notes

1. In exceptional circumstances, the Committee may in its discretion allow participants to sell, transfer, assign or dispose of some or all of these awards before the end of the holding period.
2. The Committee is made aware of pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader employee population when determining the annual salary review for the Executive Directors. Overall, the remuneration policy for the Executive Directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors given it is the Executive Directors who are considered to have the greatest potential to influence Company value creation.
3. For the avoidance of doubt, in approving the Policy Report, authority is given to the Company to honour any commitments entered into with current or former Directors that have been disclosed previously to shareholders, for example the 2011 Long-Term Incentive Plan approved by Shareholders at the AGM on 20 April 2011.

## Bonus Plan and LTIP discretions

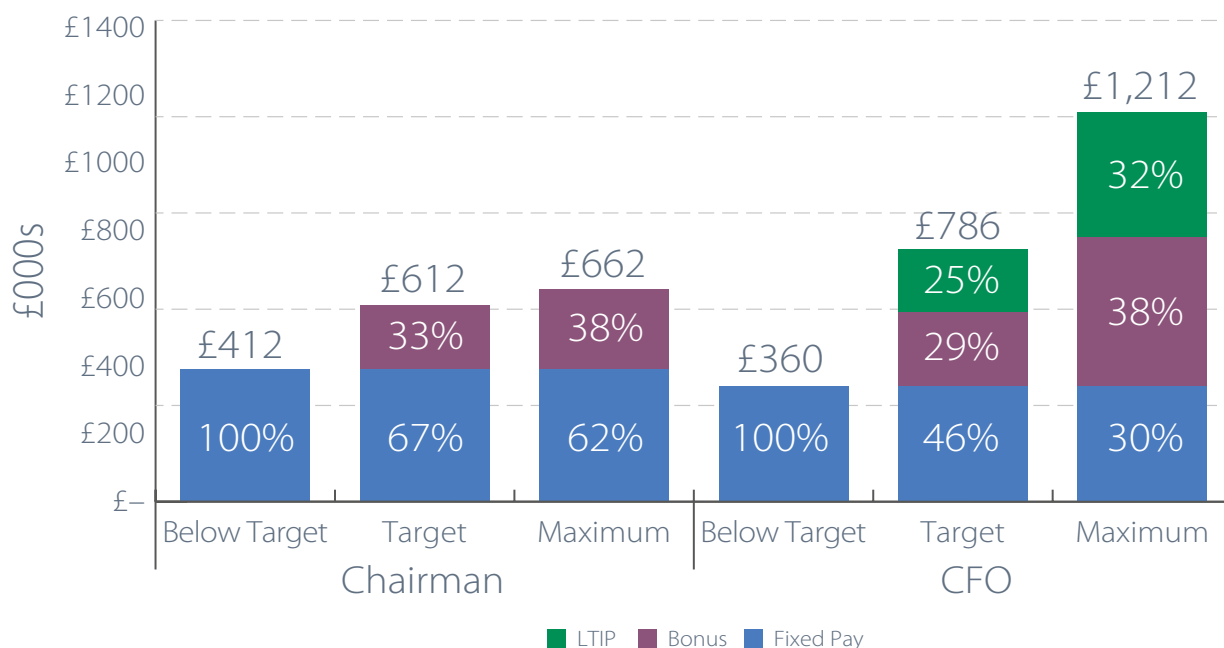
The Committee will operate the annual bonus plan and LTIP according to their respective rules and in accordance with the Listing Rules and HMRC rules, where relevant. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit with the level of award is restricted as set out in the policy table above):

- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;

- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends); and
- The ability to adjust existing performance conditions for exceptional events, including any M&A activity so that they can still fulfil their original purpose whilst being no less stretching.

## Remuneration scenarios for Executive Directors

The Company's policy results in a significant portion of remuneration received by Executive Directors being dependent on Company performance. The graph below illustrates how the total pay opportunities for the Executive Directors for 2016 vary under three performance scenarios: below target, target and maximum.



### Assumptions

#### Below Target:

- Executive Chairman: comprises fixed pay of 2016 basic salary and the value of benefits in 2015; he does not participate in the Company's pension plan.
- CFO: fixed pay of 2016 basic salary, the value of benefits in 2015 and a 12% Company pension contribution.

#### Target:

- Executive Chairman: comprises fixed pay and assumes bonus payout of 50% of salary. The Chairman will not receive any long term incentive awards in 2016.
- CFO: fixed pay and assumes bonus payout of 75% of maximum and 50% of the LTIP vests (assuming a 125% of salary grant).

#### Maximum:

- Executive Chairman: comprises fixed pay and assumes maximum payout of bonus of 62.5% of salary.
- CFO: fixed pay and assumes 150% of salary payout of bonus and LTI vesting of 125% of salary.

No account has been taken of any changes in the Company's share price.



## Recruitment and Promotion policy

The remuneration package for a new director will be established in accordance with the Company's approved policy subject to such modifications as are set out below.

Salary levels for Executive Directors will be set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy, with relocation or other related expenses provided for if necessary. A pension contribution or cash in lieu of up to 12 per cent of salary may be provided.

The structure of variable pay elements will be in accordance with the Company's approved policy detailed above. The maximum variable pay opportunity will be as set out in the remuneration policy table, being 150% of salary under the annual bonus plan and awards with a face value of up to 250% of salary under the LTIP for a CEO role and 150% of salary for other Executive Directors. Different performance measures may be set initially for the annual bonus in the year of joining, taking into account the responsibilities of the individual, and the point in the financial year that he or she joined the Board. The bonus will be pro-rated to reflect the proportion of the financial year served. An LTIP award can be made shortly following an appointment (assuming the Company is not in a close period).

In the case of external recruitment, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this may be provided, taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, may be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes if necessary and as permitted under the LSE Listing Rules. The aim of any such award would be to ensure that, as

far as possible, the expected value and structure of the award will be no more generous than the amount forfeited.

In the case of an internal recruitment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant or adjusted as considered desirable to reflect the new role.

Fees for a new Chairman or Non-Executive Director will be set in line with the approved policy.

### Service contracts and payments for loss of office

The Company's policy is to have service contracts for Executive Directors that continue indefinitely unless determined by their notice period. Under the Executive Directors' service contracts and, in line with the policy for new appointments, no more than 12 months' notice of termination of employment is required by either party. Service contracts are available for inspection at the Company's registered office.

All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, subject to annual re-appointment at the AGM. Appointments may be terminated with three months' notice. The appointment letters for the Chairman and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses. Letters of appointment are available for inspection at the Company's registered office.

For the period David Clayton is acting as interim Executive Chairman, he will be paid a salary and be eligible to participate in the annual bonus plan (subject to a 62.5% of salary maximum). He will not receive any pension or awards under the LTIP. He will receive a car allowance and will remain on a three month notice period, in line with his letter of appointment.

In accordance with the terms of the UK Corporate Governance Code all Directors submit themselves for re-election at the Annual General Meeting each year. Service contracts and letters of appointment are available for inspection at the Company's registered office. Details of the service contracts with all Executive Directors and letters of appointment with Non-Executive Directors are as follows:

Name	Contract date	Notice period
David Clayton	1 July 2013 as (Chairman)	3 months
Dominic Lavelle	18 November 2013	12 months
Chris Batterham	15 October 1999	3 months
Glenn Collinson	1 June 2014	3 months
Mandy Gradden	30 January 2012	3 months
Alan McWalter	1 March 2014	3 months



For Executive Directors, the Company may, in its absolute discretion, at any time after notice is served by either party, terminate a Directors' contract with immediate effect by paying an amount equal to base salary for the then unexpired period of notice plus the fair value of contractual benefits subject to the deduction of tax.

An Executive Director's service contract may be terminated without notice for certain events such as gross misconduct or a serious breach of contract. No payment or compensation beyond salary (and the value of holiday entitlement) accrued up to the date of termination will be made if such an event occurs.

There are no special provisions relating to change of control. The policy on termination is that the Group does not make payments beyond its contractual obligations and the Committee ensures that there are no unjustified payments for failure.

Any statutory payments required by law will be made.

#### **Treatment of incentives**

There is no automatic or contractual right to a bonus payment. At the discretion of the Committee, for certain good leaver circumstances (such as death, illness, injury, disability, redundancy, retirement, his employing company ceasing to be a Group Company or the undertaking business or division for which he or she works being sold out of the Company's Group, or any other circumstances at the discretion Committee), a pro rata bonus may become payable at the normal payment date for the period of employment and based on full year performance. Should the Committee decide to make a payment in such circumstances, the rationale would be fully disclosed in the Annual Report on Remuneration.

The treatment of share-based incentives previously granted to an Executive Director will be determined based on the plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment. However, an executive will be treated as a 'good leaver' under certain circumstances such as death, illness, injury, disability, redundancy, retirement, his employing company ceasing to be a Group Company or the undertaking business or division for which he or she works being sold out of the Company's Group, or any other circumstances at the discretion of the Committee.

Under the Deferred Share Bonus Plan, if treated as a good leaver, awards will normally vest on the original vesting date and will not normally be subject to a pro rata reduction (unless the Committee determines otherwise).

Under the LTIP, if treated as a good leaver, awards will vest at the normal vesting date subject to the extent to which performance targets have been achieved. The number of LTIP awards that would normally vest will be reduced pro-rata to reflect the proportion of the three year performance period actually elapsed unless the Committee at its discretion determines otherwise.

Vested awards that remain subject to a holding period are not forfeitable.

#### **How shareholder views are taken into account**

The Remuneration Committee is committed to ensuring an open dialogue with our shareholders and therefore, where changes are being made to the remuneration policy or where there is a material change in the way we operate our policy, we will consult with major shareholders in advance. The Remuneration Committee adopted such an approach in putting together this revised policy by consulting the Company's largest shareholders and shareholder advisory bodies beforehand.

In addition, the Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally.

#### **Consideration of employment conditions elsewhere in the Group**

Whilst the Committee does not consult directly with employees on the Directors' Remuneration Policy, the Committee does receive periodic updates regarding salary increases and remuneration arrangements across the Group. This is borne in mind when determining the remuneration policy for the Executive Directors.

#### **External Non-Executive Director appointments**

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.



# Annual Report on Remuneration

This Annual Report on Remuneration (and the Chairman's Annual Statement) will be put to a single advisory shareholder vote at the 2016 AGM. The information below includes out how we intend to operate our revised policy in 2016 and the pay outcomes in respect of the 2015 financial year. The information from the single total remuneration figures for Directors on page 54 has been audited. The remainder is unaudited.

## Implementation of Remuneration Policy in 2016

The Committee carried out a comprehensive review of executive remuneration in the last quarter of 2015 instigated by the process of changing our CEO. Whilst we continue the search for a new CEO, David Clayton will continue to assume the role of Executive Chairman. The departure of Mark Lancaster has resulted in Dominic Lavelle's role as CFO taking on greater prominence on an ongoing basis and the changes to his remuneration, as set out below, reflect this.

Subject to approval of the remuneration policy at the 2016 AGM, details of how we will operate the policy in 2016 are provided below.

### Salaries

David Clayton's fee was increased to £400,000 p.a. in October 2015 to reflect his interim executive role. This fee is £100,000 less than the departing CEO's salary. In 2016, David will continue to be paid a fee of £400,000 p.a. until a new CEO is appointed.

Dominic Lavelle has performed very strongly in his role of CFO since he joined us in November 2013. In the light of this performance, the broadening of his role to include additional responsibilities such as the re-alignment of the cost base and the sale process for non-core assets announced in January 2016 and his overall importance and value to the Company, the Committee decided to increase Dominic's salary to £310,000 (2015: £280,000) with effect from 1 October 2015. Dominic will not receive an increase in 2016 and his next salary review will be effective from 1 January 2017.

### Pension and Benefits

The CFO will continue to receive a company pension contribution of 12% of basic salary. The Executive Chairman will not receive a pension contribution.

Benefits will be provided in line with the approved remuneration policy.

### Annual bonus

As described in the Policy Report, the maximum bonus opportunity is capped at 150% of base salary. In accordance with the new policy, any bonus payable in excess of 100% of salary will be deferred in shares. The deferred shares will vest after two years, subject to continued employment.

The metrics and their weightings for the year ending 31 December 2016 are:

	Executive Chairman	CFO
Profit before tax, amortisation and one-offs	30%	37.5%
Revenue	30%	37.5%
Personal objectives	40%	25%

Profit before tax, amortisation and one-offs is the key financial performance indicator at SDL and revenue ensures there is a focus on top line growth.

Nothing will be payable for performance below the threshold level of performance.

For the Executive Chairman 15% of salary is payable for achieving the bonus threshold, 50% of salary is payable for achieving the bonus target and the maximum of 62.5% of salary is payable for achieving the stretch levels of performance.

For the CFO 15% of salary is payable for achieving the bonus threshold, 75% of salary is payable for achieving the bonus target and the maximum of 150% of salary is payable for achieving the stretch levels of performance.

The targets themselves are deemed to be commercially sensitive and have not been disclosed prospectively. However, full retrospective disclosure of the targets and performance against them will be provided in next year's remuneration report.

### Long-term incentives

The intention is to make awards under the 2016 LTIP to senior executives in line with policy. The Executive Chairman will not receive an award and the CFO's award will be over nil-cost options with a face value of 125% of salary.

Half of the awards will be subject to EPS growth targets and the other half subject to a relative Total Shareholder Return measure. Each element will be assessed independently of the other.

#### EPS Growth

The awards will vest according to the following schedule:

Adjusted, fully diluted EPS for FY2018	Proportion of Awards subject to EPS growth that vest
Less than 27p in 2018.	0%
27p in 2018.	25%
39p or higher	100%
Pro-rata vesting between the threshold and stretch performance points	



The Committee believes the above range is appropriately stretching in light of internal and external forecasts.

*Relative TSR targets*

The performance condition applying to the other half of LTIP awards will be based on SDL's Total Shareholder Return performance over a measurement period running from 1 January 2016 to 31 December 2018.

The TSR of the Company will be compared to that of the constituents of the FTSE Small Cap Index (excluding Investment Trusts) over the performance period, and will vest according to the following schedule:

**TSR performance**

**Proportion of Awards subject to TSR that vest**

Below Median	0%
Median ranking	25%
Upper Quartile ranking or higher	100%
Pro-rata vesting for performance between median and upper quartile	

For the 2016 award, vested awards will be subject to a post-vesting holding period of two years. This requires Executive Directors to hold on to the net of tax number of vested awards for a period of two years following vesting.

**Single total remuneration figure for Directors**

Information subject to audit.

The following table presents a single total remuneration figure for 2015 for the Executive and Non-Executive Directors.

		Fixed Pay			Pay for Performance			Total Remuneration £000's
		Salary £000's	Benefits <sup>(a)</sup> £000's	Pension £000's	Annual Bonus <sup>(b)</sup> £000's	LTIP <sup>(c)</sup> £000's	Other <sup>(d)</sup> £000's	
<b>Chairman / Executive Chairman</b>								
David Clayton <sup>(e)</sup>	2015	152.5	3.0	–	–	–	–	155.5
	2014	70.0	–	–	–	–	–	70.0
<b>Executive Directors</b>								
Dominic Lavelle	2015	287.5	12.7	34.5	100.0	–	–	434.7
	2014	280.0	12.5	33.6	154.8	–	–	480.9
Mark Lancaster <sup>(f)</sup>	2015	416.7	32.2	53.4	–	591.7	714.6	1,808.6
	2014	500.0	38.6	64.0	682.5	–	–	1,285.1
<b>Non-Executive Directors</b>								
Chris Batterham	2015	40.0	–	–	–	–	–	40.0
	2014	40.0	–	–	–	–	–	40.0
Joe Campbell	2015	–	–	–	–	–	–	–
	2014	24.0	–	–	–	–	–	24.0
Mandy Gradden	2015	45.0	–	–	–	–	–	45.0
	2014	45.0	–	–	–	–	–	45.0
Alan McWalter	2015	45.0	–	–	–	–	–	45.0
	2014	37.5	–	–	–	–	–	37.5
Glenn Collinson	2015	45.0	–	–	–	–	–	45.0
	2014	26.3	–	–	–	–	–	26.3
John Matthews*	2015	12.0	–	–	–	–	–	12.0
	2014	30.0	–	–	–	–	–	30.0

\* consultant to the Board throughout 2015.

(a) Taxable benefits for the year included: Car allowance, Private medical insurance, Life assurance and Health insurance.

(b) Discretion was exercised to pay a cash bonus to Dominic Lavelle for his 2015 performance.

(c) See 'Loss of office payments' for details of LTIP vesting.

(d) Contractual loss of office payment see 'Loss of office payments' for details.

(e) David Clayton's 2015 fees are split as follows: As Chairman (1 January to 31 September) £49,500; as Executive Chairman (1 October to 31 December) £103,000.

(f) Mark Lancaster ceased employment on 31 October 2015; up until the date of cessation he received 10 months payment in respect of salary, pension contribution, taxable benefits and holiday entitlements.





## 2015 annual bonus

The 2015 bonus was based on PBTA and revenue performance. Directors were eligible to an additional over-performance pay-out if the Group over achieves on its target bookings. No bonus is payable if either of the PBTA or Bookings growth thresholds are not met.

	Threshold <sup>1</sup>	Target <sup>2</sup>	Maximum <sup>3</sup>	2015 Actual
PBTA	£22m	£25m	£30m	£13.9m
Revenue	£265m	£290m	£335m	£266.9m
Bookings growth	10%	14%	24%	- 4.9%

<sup>1</sup> 40% of salary payable for threshold PBTA and 0% for threshold Revenue. A bonus multiplier of 0.2 applies for threshold bookings growth performance.

<sup>2</sup> 50% of salary payable for target PBTA and 50% for target Revenue. A bonus multiplier of 1.0 applies for target bookings growth performance.

<sup>3</sup> 75% of salary payable for maximum PBTA and 0% for maximum Revenue. A bonus multiplier of 2 applies for maximum (stretch) bookings growth performance.

As bookings growth and PBTA were below threshold, no bonus became payable. However, under the terms of the approved policy, the Committee has used the discretion available to it in exceptional circumstances and has amended the bonus outcome to reflect Dominic Lavelle's exceptional contribution in 2015. In 2015, Dominic demonstrated exceptional performance and undertook additional responsibilities which later included leading the restructuring that was announced in early 2016. Reflecting this strong performance together with Dominic's overall importance to the Company and the leadership he has shown since the change in the Executive Board, the Committee decided to award Dominic a £100,000 bonus in respect of his exceptional contribution in 2015. The Committee determined that it was appropriate to use this discretion as permitted under the policy.

David Clayton did not receive a bonus for the part of the year he was acting as interim Executive Chairman.

## Outstanding Long-Term Incentive Plan awards

Details of the nil cost option awards, not yet vested and exercised, made under the LTIP are disclosed in the table below:

Director	Award grant date	Share price at grant (pence)	As at 1 Jan 2015	Granted during year	Lapsed during year	Vested and exercised during year	As at 31 Dec 2015	Earliest date shares can be acquired	Latest date shares can be acquired
Dominic Lavelle	7 Apr 2014	333.5	83,958	0	0	0	83,958	7 Apr 2017	7 Apr 2024
	17 Apr 2015	444.75	0	62,957	0	0	62,957	17 Apr 2018	17 Apr 2025

The 2014 and 2015 awards will vest subject to a relative TSR measured against the FTSE 250 Index and an EPS growth target measured relative to the Consumer Price Index. The performance period for both awards will be measured over the three financial years ending 31 December 2015, 2016 and 2017 respectively.

- TSR – No part of this award vests if performance is below the Index, 25 per cent vests for achieving performance in line with the Index, with 100 per cent vesting for performance 2 x the Index performance with straight line vesting in between.
- EPS - must increase by at least inflation + 3% per annum during the performance period (with inflation measured by reference to the Consumer Prices Index).

If one or both of these minimum levels of performance are not achieved the 2015 award will lapse.

The 2015 award granted to Dominic Lavelle was based on 100% of salary grant and had a face value of £280,000.

## Directors' interest in shares



To align the interests of senior management with those of shareholders further, it is proposed that Executive Directors will be subject to share ownership guidelines following the approval of this policy. Executive Directors will be required to accumulate a holding of Ordinary Shares in the Company to the value of 200 per cent of their salary. Until the guideline is met, the Executive is expected to retain 50 per cent of shares acquired under the Company's share plans (after allowing for tax and national insurance liabilities).

The interests of the Directors in the share capital of SDL PLC at 31 December 2015 are set out below.

Name of director	Owned		LTIP awards		SAYE		Total 31.12.15	% of salary held under Shareholding Policy <sup>1</sup> 31.12.15
	31.12.14	31.12.15	Unvested	Vested	Unvested	Vested		
<b>Executive Directors</b>								
Dominic Lavelle	30,000	30,000	146,915	0	0	0	<b>176,915</b>	40%
David Clayton	40,000	113,950	0	0	0	0	<b>113,950</b>	119%
<b>Non-Executive Directors</b>								
Chris Batterham	86,895	100,000	0	0	0	0	<b>100,000</b>	n/a
Glenn Collinson	0	0	0	0	0	0	<b>0</b>	n/a
Mandy Gradden	7,500	7,500	0	0	0	0	<b>7,500</b>	n/a
Alan McWalter	0	0	0	0	0	0	<b>0</b>	n/a
<b>Former Director</b>								
Mark Lancaster	1,381,187	1,381,187*						n/a

\* Mark Lancaster left employment on 31 October 2015 and the closing 2015 value reflects his owned shares upon cessation of employment.

There has been no change in the interests set out above between 31 December 2015 and 15 March 2016.

<sup>1</sup> The Directors' interest guideline was introduced in 2016 and the Committee will review progress against the guideline going forward. Figures above have been calculated using the share price as at 31 December 2015, 417p.

### Loss of office payments

Mark Lancaster stepped down as CEO on 1 October 2015 and ceased employment on 31 October 2015. He continued to receive his contractual salary and benefits until his employment ceased. In line with his contract, Mark received a payment in lieu of notice, comprising:

- £458,333 in respect of 11 months' salary for the remainder of his contractual notice period;
- £55,000 in respect of 11 months' pensions contribution for the remainder of his contractual notice period;
- £35,479 in respect of 11 months' taxable benefits for the remainder of his contractual notice period;
- £78,335 to settle any claim arising upon the cessation of his employment; and
- £87,423 in lieu of accrued but not taken holiday entitlement and expenses incurred.
- Taking into account the Company's performance from the commencement of the performance period to the cessation

of his employment, amongst other factors, including Mark's individual performance discretion was applied to calculate the vesting of outstanding LTIP awards and then a pro-rating for the proportion of the performance period served was applied such that:

- 2013 award - all 178,571 unvested awards will lapse with effect from the cessation of his employment.
- 2014 award - the award shall vest as to 103,073 shares out of a total of 224,887 on the cessation of his employment and the remainder shall lapse.
- 2015 award - the award shall vest as to 35,132 shares out of a total of 168,634 on the cessation of his employment and the remainder shall lapse.
- Under the settlement agreement signed with Mr Lancaster, he shall be entitled to be treated in a comparable manner with respect to bonus payments in respect of the 2015 financial year that are awarded to other Executive Directors.



**Relative importance of spend on pay**

The following table sets out the percentage change in dividends and overall spend of employee pay in the 2015 financial year compared with the prior year.

	2015 £m	2014 £m	% change
Dividends	2.5	2.0	25
Total return to shareholders	2.5	2.0	25
Employee remuneration costs	145.0	141.3	3

**Percentage change in CEO pay**

The table above shows the percentage year on year change in the value of salary, benefits and annual bonus for the Chief Executive between the current and previous year compared to that of the average employee on a full time equivalent basis.

	2015	2014	% change
<b>Chief Executive (£000s)</b>			
• Salary	*519.7	**500.0	+3.9
• Benefits	32.2	38.6	- 8.8
• Bonus	0	682.5	-100.0
<b>Full time equivalent average UK employee (£)(1)</b>			
• Salary	49.2	47.6	+3.4
• Benefits	1.7	1.2	+41.7
• Bonus	10.0	9.8	+1.8

\*Mark Lancaster and David Clayton | \*\*Mark Lancaster

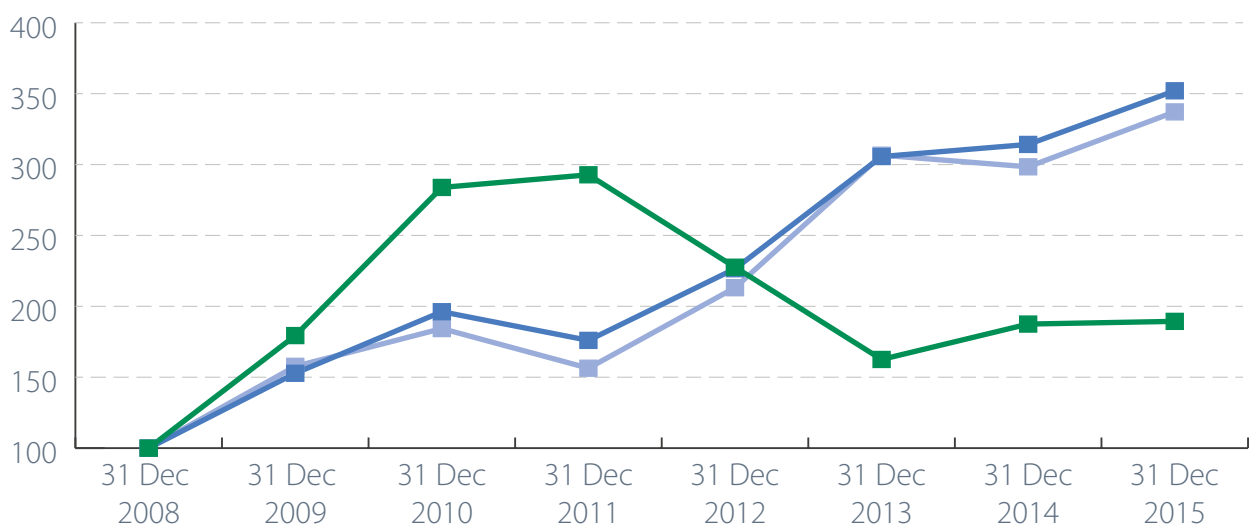
(1) There are 515 UK employees at 31 December 2015 (31 December 2014: 506) , of which 26 (2014: 25) were part time.

**Performance graph and single figure table**

The following graph shows the Company's TSR performance over the last seven financial years against the FTSE 250 Index (excluding investment trusts) and the FTSE SmallCap Index (excluding investment trusts). These indices have been chosen as they include companies of a broadly comparable size to SDL PLC.

**Total Shareholder Return**

Source: Thomson Reuters



This graph shows the value, by 31 December 2015, of £100 invested in SDL on 31 December 2008 compared with the value of £100 invested in the FTSE 250 Index excluding Investment trusts and FTSE Small Cap Index excluding Investment trusts, on a yearly basis.

—■— SDL    —■— FTSE 250 Ex Investment Trusts    —■— FTSE Small Cap Ex Investment Trusts



The table below shows the total remuneration figure for the CEO and Executive Chairmen roles over the same seven year period. The total remuneration figure includes the annual bonus and LTIP awards with performance periods ending in or shortly after the relevant year ends.

	2009	2010	2011	2012	2013	2014	2015
CEO single total figure of remuneration (£000's)	914	954	1,200	729	597	1,285	1,911
Bonus payout (%)	40	44	47	24	0	53	0
LTIP vesting (%)	100	100	100	71.5	0	0	<sup>1</sup> 2013 = 0% 2014 = 46% 2015 = 21%

<sup>1</sup> Vesting percentages of Mark Lancaster's outstanding LTIP awards at time of resignation.

### Membership of the Remuneration Committee

The Code requires that a Group of the size of SDL PLC has a Remuneration Committee comprising a minimum of three non-executives. The Committee is chaired by Glenn Collinson. The other Committee members comprise Mandy Gradden and Alan McWalter.

The Remuneration Committee members have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interests arising from cross directorships and no day to day involvement in running the business. The Non-Executive Directors are not eligible for pensions and do not participate in the Group's bonus or share schemes.

The Remuneration Committee determines and agrees with the Board, within formal terms of reference, the framework and policy of Directors' and senior management's remuneration and its cost to the Group. The Committee considers the performance of the Executive Directors as a prelude to recommending their annual remuneration, bonus awards and share awards to the Board for final approval.

The Committee met seven times during the year. At those meetings basic salaries of Executive Directors and senior managers were reviewed, the targets and quantum of annual performance related bonuses for Directors were also agreed, as were awards granted under the Group's Long-Term Incentive Plan. The meetings also approved the payment of the 2014 performance related bonus, dealt with the vesting of the shares awarded in 2012 under the LTIP scheme and agreed the arrangements for the departing CEO and incoming interim Executive Chairman. In the last quarter of 2015, the Committee carried out extensive work in forming a new remuneration policy for approval by shareholders at the AGM in 2016.

The Committee also receives advice from several sources, namely:

- The Executive Chairman who attends the Remuneration Committee by invitation or when required and the Company Secretary, attends meetings when required as Secretary to the Remuneration Committee. The former Chief Executive attended the meetings upon invitation. No Executive Director takes part in discussions relating to their own remuneration and benefits.

During the year, Towers Watson provided assistance with market data and benchmarking executive rewards; advice on market practice; and reward consultancy. Total fees charged in the period were £50,248 + VAT and were charged on a time spent basis.

PricewaterhouseCoopers LLP acted as independent assessors for testing the vesting criteria (TSR and EPS) of share-based incentives.

New Bridge Street was appointed by the Remuneration Committee in 2016 to act as independent advisor to the Committee and the Committee is satisfied that New Bridge Street's advice is objective and independent. Advice has been provided since January 2016 and therefore, no fees were charged in the 2015 financial period.

### Statement of shareholder voting at the AGM (Unaudited)

At last year's AGM, the Directors' Remuneration Report (Directors' Remuneration Policy and Annual Report on Remuneration) received the following votes from shareholders:

### Annual Report on Remuneration

	Total number of votes	% of votes cast
For	52,308,243	77.1%
Against	15,528,077	22.89%
Abstentions	1,147,464	n/a
<b>Total</b>	<b>68,983,784</b>	

On behalf of the Board

Glenn Collinson  
Chairman of the Remuneration Committee]  
15 March 2016



# Director's Report

## Introduction

The Directors of SDL PLC present their report together with the audited consolidated financial statements for the year ended 31 December 2015.

## 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 4 to 27.

## Responsibility Statement

As required under the Disclosure and Transparency Rules ("DTR"), a statement made by the Board regarding the preparation of the financial statements is set out following this report which also provides details regarding the disclosure of information to the Company's auditor and management's report on internal control over financial information.

## Going Concern

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

The Directors' enquiries included a review of performance in 2015, 2016 annual plans, a review of working capital including the liquidity position and a review of current indebtedness levels. The Directors confirm 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.

## Corporate Governance Statement

The information required by the DTR can be found in the Corporate Governance Report on pages 30 to 34.

## Strategic Report

The Strategic Report is set out on pages 4 to 27 and is incorporated into this Directors' Report by reference.

## Directors

### Biographies

Biographies of the current Directors of the Company are given on pages 28 and 29. The table on page 54 shows Directors who served during the year to 31 December 2015. All those persons holding office as a Director of the Company will retire and offer themselves for re-election at the 2016 AGM.

### 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 27 April 2015 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 of 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 2016 AGM will be held at 9:30am on Thursday 28 April 2016 at DLA Piper UK LLP, 1 London Wall, London EC2Y 5EA. The notice of the 2016 AGM will be made available to shareholders and will also be published on the Group website [www.sdl.com /About Us / Investor Relations / AGM](http://www.sdl.com/About Us / 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 68 and note 3 shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's profit (PBT) for the year was £20.6 million (2014: £16.5 million). The Directors are recommending that shareholders declare a final dividend of 3.1 pence per ordinary share in respect of the year ended 31 December 2015. If approved, the final dividend will be paid on 3 June 2016 to shareholders on the Register of Members at close of business on 6 May 2016.



## 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 2015 by the Trust are to be found in note 19 to the accounts. Since 31 December 2015 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.

### Substantial shareholdings

All persons with a significant holding, along with the value of that holding are given in the table below (share price at 24 February 2016; 430.75 pence)

	Holding at 24 February 2016	% of issued share capital	Value of Holding (£000)
Artemis Investment Mgt	9,812,216	12.07	£42,266
Aberforth Partners	8,458,653	10.41	£36,436
FIL Investment International	8,193,636	10.08	£35,294
Schroder Investment Mgt	7,425,006	9.13	£31,983
RGM Capital	6,014,121	7.40	£25,906
Majedie Asset Mgt	3,106,476	3.82	£13,381
Baillie Gifford & Co	2,497,965	3.06	£10,760
Old Mutual Global Investors	2,484,945	3.06	£10,704
Pyramis Global Advisors	2,448,600	3.01	£10,547

## Share Capital and Control

As at 15 March 2016 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.

The agreements between the Company and its Directors for compensation for loss of office are given in the Directors Remuneration Report on page 42.





## 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 20. 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.

## Contractual Relationships

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

## Political and Charitable Donations

During the year no political donations were made. A donation of £213,650 was made to The SDL Foundation.

## Internal controls

There has been a process for identifying, evaluating and managing significant risks throughout the year to 31 December 2015 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.

## 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 auditor in connection with the preparation of their auditor's 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.

## Information presented in other sections of the Annual Report

Other information which is required to be included in a Directors' Report can be found in other sections of the Annual Report, as described below. All of the information presented in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

- Commentary on the likely future developments in the business of the Group is included in the Strategic Report.
- A description of the Group's financial risk management and its exposure to risks arising are set out in note 23 to the accounts.
- Particulars of events occurring after the balance sheet date are described in notes 14 and 25 to the accounts and discussed in the Strategic Report.
- Information concerning Directors' contractual arrangements and entitlements under share based remuneration arrangements is given in the Directors' Remuneration Report .
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in 'People'.
- Disclosures concerning greenhouse gas emissions are contained in the Environment section of the Strategic report on page 25.

Rule DTR 7.2.1 of the Disclosure and Transparency Rules requires the Group's disclosures on Corporate Governance to be included in the Directors' Report - see pages 30 to 34. The information in these sections is incorporated by reference into this Directors' Report and is deemed to form part of this report.

Rule DTR 4.1.5 of the Disclosure and Transparency Rules requires that the annual report of a listed company contains a management report containing certain prescribed information. This Directors' Report, including the other sections of the Annual Report incorporated by reference, comprises a management report for the Group for the year ended 31 December 2015, for the purposes of the Disclosure and Transparency Rules.

### COMPANY NUMBER

The Company number of SDL PLC is 2675207.

By order of the Board

Dominic Lavelle  
Director  
15 March 2016



## 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, including FRS 101 *Reduced Disclosure Framework*.

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 financial 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.

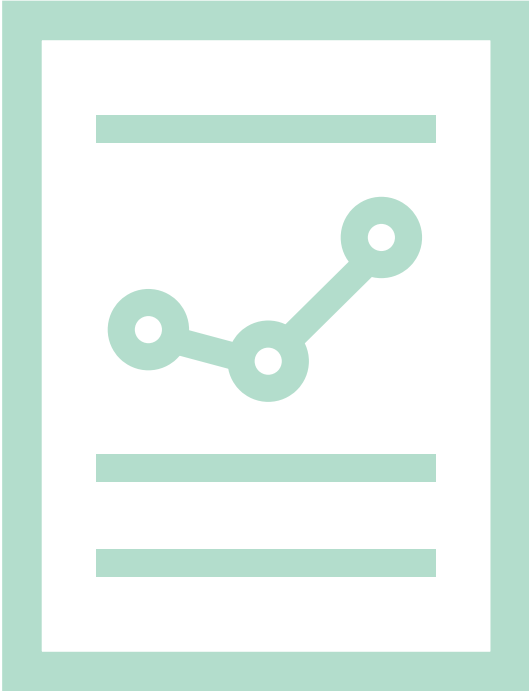
Dominic Lavelle

Director

15 March 2016

# Financial Statements







## 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 2015 set out on pages 68 to 110. 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 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; 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 detailed below. We have performed procedures over the recognition of deferred tax assets. However, following increased certainty over the recoverability of deferred tax assets as a result of changes to the Group's structure introduced during the year, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

#### **Impairment of goodwill and intangibles: £163.1m carrying value and impairment charge £33.3m (2014:£202.6m carrying value)**

Refer to page 37 (Audit Committee statement), page 73 (accounting policy) and pages 86, 89-90 (financial disclosures).

- The risk – The carrying value of goodwill and intangibles are a significant part of the net assets of the Group and are significant compared to the market capitalisation of the Group. Following a slower than anticipated recovery of aspects of the Group's trading in 2015, the Directors are undertaking a restructuring of the Group's operations to focus on its core product offerings. In light of the ongoing change in the Group's operations there is an increased risk and level of judgement around impairment in the Language Technology, Global Content Technologies and

Non-Core group of cash generating units. Goodwill and intangibles are assessed for impairment using a discounted cash flow model for a value in use (VIU) model. Due to the inherent uncertainty involved in forecasting and discounting future cash flows for a VIU model, this is one of the key judgemental areas that our audit concentrates on.

- Our response – We utilised our internal valuation specialists to assist in this area. Our procedures included testing the budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow model. We compared the input assumptions to externally and internally derived data in considering the reasonableness of key inputs such as current business trends and pipeline, market performance, cost inflation, projected long term economic growth, and discount rates. In addition, we performed sensitivity analysis which considered reasonably possible changes in assumptions and their impact on the valuation and the resulting impairment charge. Our assessment included consideration of the potential risk of management bias and consideration of the historical accuracy of the Directors' forecasts.

We 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.

#### **Technology revenue: £114.1m (2014:£113.6m)**

Refer to page 37 (Audit Committee statement), page 74 (accounting policy) and pages 77-79 (financial disclosures).

- The risk – Technology revenue includes licenced software and related services in the Language Technology, Global Content Technologies and Non-Core operating segments. 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 – Our procedures included inspecting those contracts contributing the highest levels of licence revenue, and critically assessing:



- the appropriateness of the Directors' judgements in determining the fair value of each element of the contract by reference to standalone selling prices, day rates for consultancy and training, support and maintenance rates and renewal rates;
- the elements of the contract that have been delivered by obtaining proof of delivery for all delivered elements;
- the significance of undelivered elements, such as professional services outstanding or upgrades or future changes to products, to determine the potential impact on revenue recognition; and
- the appropriateness and consistent application of the Group's accounting policies.

We assessed the collection of receivables for any potential impact on revenue recognition at the date of delivery, or date of initial recognition of revenue if later, challenging whether non-payment indicated that either obligations had not been fulfilled. We did this by checking whether cash had been received after the year end in respect of amounts owed to the Group at the year end, or, where amounts remain unpaid, we assessed the specific customer circumstances and related contractual terms.

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

Materiality for the Group financial statements as a whole was set at £750,000 (2014: £750,000), determined with reference to a benchmark of Group loss before taxation normalised to exclude one-off items disclosed in note 4 of the Annual Report (a normalised profit of £13.9m), of which it represents approximately 5% (2014: approximately 6% of Group profit before tax normalised to exclude one-off items and averaged over the last three years to reduce the effect of volatility, of £12.3m). In 2015 it was not considered necessary to use an average profit measure over a number of years as profits excluding one-off items are now less volatile year on year.

We reported to the Audit Committee all corrected and uncorrected identified misstatements exceeding £40,000 (2014: £40,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 76 (2014: 88) reporting components, we subjected 9 (2014: 9) to audits for group reporting purposes and 9 (2014: 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 Loss before Tax <sup>(1)</sup>	Group Total Assets
Full-scope Audit	9	61%	68%	79%
Specified Risk-focused procedures <sup>(2)</sup>	9	26%	9%	12%
<b>Total (2015)</b>	<b>18</b>	<b>87%</b>	<b>77%</b>	<b>91%</b>
Total (2014)	16	79%	67%	90%

<sup>(1)</sup> This is the total profits and losses as a percentage of the total profits and losses that made up Group loss before tax

<sup>(2)</sup> Procedures were focused on key areas including revenue, payroll costs, trade receivables, cash, accruals and provisions as applicable for each reporting component.

The remaining 13% of total Group revenue, 23% of Group loss before tax and 9% of total Group assets is represented by 58 reporting components, none of which individually represented more than 4% of total Group revenue, Group loss before tax or total Group assets. For these 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 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 team approved the component materialities, which ranged from £100,000 to £600,000 (2014: £100,000 to £600,000), having regard to the mix of size and risk profile of the Group across the components. The work on 14 of the 18 components (6 audits and 8 specified procedures) (2014: 12 of the 16 components) was performed by component auditors and the rest by the Group team. The Group team performed procedures on items excluded from normalised group loss before tax.

The Group audit team visited ten components in the USA, UK and Holland (2014: 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 Group audit team reviewed the audit files and 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 on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability Statement on page 15, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to December 2018; or
- the disclosures in note 2 of the financial statements concerning the use of the going concern basis of accounting.

## 6. 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 position and performance, business model and strategy; or
- the Audit Committee report 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' statements, set out on page 59, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 31 to 34 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

## Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 62, 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](http://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](http://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 LLP, Statutory Auditor*

Chartered Accountants

15 Canada Square

London

E14 5GL

15 March 2016





# Consolidated Income Statement

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Sale of goods		50.5	50.6
Rendering of services		216.4	209.8
<b>Revenue</b>	3	<b>266.9</b>	260.4
Cost of sales		(116.9)	(112.9)
<b>Gross profit</b>		<b>150.0</b>	147.5
Administrative expenses	4	(175.1)	(137.8)
<b>Operating loss/(profit)</b>		<b>(25.1)</b>	9.7
<b>Operating profit before tax, amortisation and one-off costs</b>		<b>20.7</b>	16.8
Amortisation of intangible assets	4	(6.7)	(7.1)
One-off items	4	(39.1)	–
<b>Operating loss/(profit)</b>	4	<b>(25.1)</b>	9.7
Finance income	4	–	0.1
Finance cost	4	(0.1)	(0.4)
<b>(Loss)/profit before tax</b>		<b>(25.2)</b>	9.4
<b>Profit before tax, amortisation and one-off costs</b>		<b>20.6</b>	16.5
Amortisation of intangible assets		(6.7)	(7.1)
One-off items	4	(39.1)	–
<b>(Loss)/profit before tax</b>	4	<b>(25.2)</b>	9.4
Tax expense	5	(5.5)	(2.8)
<b>(Loss)/profit for the year attributable to equity holders of the parent</b>		<b>(30.7)</b>	6.6
Earnings per ordinary share – basic (pence)	7	(37.93)	8.03
Earnings per ordinary share – diluted (pence)	7	(37.93)	7.97

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



# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Loss/(profit) for the period		<b>(30.7)</b>	6.6
Currency translation differences on foreign operations		<b>(6.3)</b>	(5.3)
Currency translation differences on foreign currency quasi equity loans to foreign subsidiaries		<b>2.5</b>	4.1
Income tax charge on currency translation differences on foreign currency quasi equity loans to foreign subsidiaries	5	<b>(0.7)</b>	(1.1)
<b>Other comprehensive income</b>		<b>(4.5)</b>	(2.3)
<b>Total comprehensive income</b>		<b>(35.2)</b>	4.3

All the total comprehensive income is attributable to equity holders of the parent Company. Currency translation differences on foreign operation including quasi equity loans and their related tax impacts may all be reclassified to the Income Statement upon disposal of that operation.



# Consolidated Statement of Financial Position

at 31 December 2015

	Notes	2015 £m	2014 £m
<b>Assets</b>			
<b>Non current assets</b>			
Property, plant and equipment	8	6.3	7.4
Intangible assets	9	163.1	202.6
Deferred tax asset	5	6.0	5.3
Rent deposits		1.6	1.7
		<b>177.0</b>	217.0
<b>Current assets</b>			
Trade and other receivables	12	73.4	69.4
Corporation tax		2.8	2.3
Cash and cash equivalents	13	17.2	22.1
		<b>93.4</b>	93.8
<b>Total assets</b>		<b>270.4</b>	310.8
<b>Current liabilities</b>			
Trade and other payables	14	(81.7)	(84.0)
Loans and overdraft	16	-	(9.0)
Current tax liabilities		(9.4)	(6.7)
Provisions	17	(2.9)	(2.8)
		<b>(94.0)</b>	(102.5)
<b>Non current liabilities</b>			
Other payables	15	(1.4)	(1.3)
Loans and overdraft	16	(4.6)	-
Deferred tax liability	5	(3.1)	(4.4)
Provisions	17	(0.4)	(0.5)
		<b>(9.5)</b>	(6.2)
<b>Total liabilities</b>		<b>(103.5)</b>	(108.7)
<b>Net assets</b>		<b>166.9</b>	202.1
<b>Equity</b>			
Share capital	18	0.8	0.8
Share premium account		98.5	97.9
Retained earnings		59.6	90.9
Foreign exchange differences		8.0	12.5
<b>Total equity</b>		<b>166.9</b>	202.1

Approved by the Board of directors on 15 March 2016

**D Clayton**  
Director

**D Lavelle**  
Director



# Consolidated Statement of Changes in Equity

for the year ended 31 December 2015

	Share Capital	Share Premium Account	Retained Earnings	Foreign Exchange Differences	Total
	£m	£m	£m	£m	£m
<b>At 1 January 2014</b>	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
<b>At 31 December 2014</b>	<b>0.8</b>	<b>97.9</b>	<b>90.9</b>	<b>12.5</b>	<b>202.1</b>

	Share Capital	Share Premium Account	Retained Earnings	Foreign Exchange Differences	Total
	£m	£m	£m	£m	£m
<b>At 1 January 2015</b>	0.8	97.9	90.9	12.5	202.1
Loss for the period	–	–	(30.7)	–	(30.7)
Other comprehensive income	–	–	–	(4.5)	(4.5)
Total comprehensive income	–	–	(30.7)	(4.5)	(35.2)
Deferred income taxation on share based payments* (Note 5)	–	–	0.1	–	0.1
Arising on share issues*	–	0.6	–	–	0.6
Dividend paid*	–	–	(2.0)	–	(2.0)
Share based payments*	–	–	1.3	–	1.3
<b>At 31 December 2015</b>	<b>0.8</b>	<b>98.5</b>	<b>59.6</b>	<b>8.0</b>	<b>166.9</b>

\* These amounts relate to transactions with owners of the Company recognised directly in equity.

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



# Consolidated Statement of Cash Flows

at 31 December 2015

	Notes	2015 £m	2014 £m
<b>(Loss)/profit before tax</b>		<b>(25.2)</b>	9.4
Depreciation of property, plant and equipment	8	3.6	4.7
Amortisation of intangible assets	9	6.7	7.1
Impairment losses on intangible assets		33.3	-
Finance income		-	(0.1)
Finance costs		0.1	0.4
Share based payments		1.3	0.8
Increase in trade and other receivables		(3.9)	(2.0)
(Decrease) / increase in trade and other payables		(1.4)	3.6
Foreign exchange gains		(2.5)	(1.7)
<b>Cash generated from operations</b>		<b>12.0</b>	<b>22.2</b>
Income tax paid		(5.8)	(3.9)
<b>Net cash flows from operating activities</b>		<b>6.2</b>	18.3
<b>Cash flows from investing activities</b>			
Payments to acquire property, plant & equipment		(2.7)	(2.4)
Receipts from sale of property, plant & equipment		0.1	-
Payments to acquire intellectual property and subsidiaries		(0.3)	(0.3)
Interest received		-	0.1
<b>Net cash flows from investing activities</b>		<b>(2.9)</b>	(2.6)
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		0.2	0.4
Proceeds from borrowings		4.6	-
Repayment of borrowings		(9.0)	(11.0)
Dividends paid		(2.0)	-
Repayment of capital leases		(0.4)	(0.3)
Interest paid		(0.1)	(0.4)
<b>Net cash flows from financing activities</b>		<b>(6.7)</b>	(11.3)
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(3.4)</b>	4.4
<b>Movement in cash and cash equivalents</b>			
Cash and cash equivalents at the start of year		22.1	18.2
(Decrease)/increase in cash and cash equivalents		(3.4)	4.4
Effect of exchange rates on cash and cash equivalents		(1.5)	(0.5)
<b>Cash and cash equivalents at end of year</b>	20	<b>17.2</b>	22.1



# Notes to the Accounts

for the year ended 31 December 2015

## 1 Corporate information

The consolidated financial statements of SDL plc (the 'Group') for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 15 March 2016. 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 FRS 101 and these are presented on pages 139 to 153. 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 2015, 2016 annual plans, a review of working capital including the liquidity position, financial covenant compliance and a review of current cash levels. As a result, the Directors 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:

- Annual Improvements to IFRSs – 2010-2012 Cycle.
- Annual Improvements to IFRSs – 2011-2013 Cycle.

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 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 (CGUs) expected to benefit from the combination's synergies.

A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets. For the purpose of impairment testing, CGUs, to which goodwill has been allocated, are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. This is usually the relevant operating segment within the Group.

Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs, to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs 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 (CGUs).

#### 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:

- 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.

- 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. 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 and accumulated in a separate component of equity. 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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Intra-company loans for which settlement is neither planned nor likely to occur in the foreseeable future are defined as quasi-equity loans. Currency translation differences on retranslation of these loans at the balance sheet date are recognised in the Statement of Comprehensive Income. On disposal, the associated currency translation differences are reclassified from equity to profit and loss on disposal of the net investment in the subsidiary.

### 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.

### 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 instruments

#### • *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

#### • *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

#### • *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### • *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### • *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated 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) prorated 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, are expected to 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 fair 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 items

One-off items are those items that in management judgement should be disclosed separately by virtue of their size, nature or incidence to provide a better understanding of the financial performance of the Group. In determining whether an event or transaction is one-off, management considers qualitative as well as quantitative factors such as frequency or predictability of occurrence. One-off items include significant costs of restructuring and other costs that are considered to be non-recurring.

#### Segment reporting

Segment results that those reported to the Chief Operating Decision Maker for the purpose of making decisions about allocating resources to segments and assessing performance. These results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

#### New standards and interpretations not applied

The following EU Endorsed IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (effective date to be confirmed).
- IFRS 14 Regulatory Deferral Accounts (effective date to be confirmed).
- IFRS 15 Revenue from Contract with Customers (effective date to be confirmed). The Group continues to review the impact of this Standard. Key implementation issues under review include the acceleration of revenue recognised on the licence element of term licence contracts and the deferral of commission payments.
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (effective date to be confirmed).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (effective date to be confirmed).
- Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 (effective date to be confirmed).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (effective date to be confirmed).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective date to be confirmed).
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date to be confirmed).
- Investment entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective date to be confirmed).
- Disclosure Initiative – Amendments to IAS 1 (effective date to be confirmed).

#### 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 or group of cash generating units 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.

#### 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.

##### *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. 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.

## 3 Segment information

The Group operates in the global content management and language translation industries. For management purposes, the Group is organised into business units based on the nature of their products and services. Following the completion of the Group's operational review, the Group has four 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 Language Technology segment is the sale of enterprise, desktop and statistical machine translation technologies together with associated consultancy and services.
- The Global Content Technologies segment is content management and knowledge management technologies together with associated consultancy services.
- The Non Core Businesses segment includes the sale of campaign management, social media monitoring and marketing analytic and Fredhopper technologies together with associated consultancy and 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, amortisation and one-offs.

Following the completion of the Group's 2015 operational review, the Group has also revisited its internal recharge allocation methodologies during the year to better reflect how services and costs are consumed by each segment. The impact has been to recognise additional internal revenue recharges of £3.8 million and to reallocate costs of £1.3 million between Language Services and Language Technology segments. In accordance with IFRS8, the operating segments and internal recharges for the comparative period have been restated to provide consistent and meaningful information.



Year ended 31 December 2015	External Revenue	Internal Revenue	Total Revenue	Shared Costs	Depreciation	Segment profit/(loss) before taxation and amortisation
	£m	£m	£m	£m	£m	£m
Language Services	152.8	–	152.8	24.0	1.3	30.4
Language Technology	36.7	5.5	42.2	7.5	1.3	1.3
Global Content Technologies	50.9	–	50.9	11.5	0.4	(1.5)
Non Core Businesses	26.5	–	26.5	8.5	0.6	(9.6)
<b>Total</b>	<b>266.9</b>	<b>5.5</b>	<b>272.4</b>	<b>51.5</b>	<b>3.6</b>	<b>20.6</b>
Amortisation & One-off Costs						(45.8)
Profit before taxation						(25.2)

Year ended 31 December 2014 - restated	External Revenue	Internal Revenue	Total Revenue	Shared Costs	Depreciation	Segment profit/(loss) before taxation and amortisation
	£m	£m	£m	£m	£m	£m
Language Services	146.8	–	146.8	22.6	1.6	24.1
Language Technology	37.4	5.5	42.9	7.0	1.6	5.1
Global Content Technologies	51.4	–	51.4	10.3	0.6	(1.5)
Non Core Businesses	24.8	–	24.8	7.2	0.9	(11.2)
<b>Total</b>	<b>260.4</b>	<b>5.5</b>	<b>265.9</b>	<b>47.1</b>	<b>4.7</b>	<b>16.5</b>
Amortisation						(7.1)
Profit before taxation						9.4

Shared costs represent total central costs which are allocated to segments each year.

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

	2015 £m	2014 £m
UK	69.8	70.0
USA	77.4	72.1
Republic of Ireland	22.2	22.1
Netherlands	20.1	20.9
Belgium	14.8	17.2
Germany	13.1	15.2
Canada	12.7	10.9
Rest of World	36.8	32.0
	<b>266.9</b>	<b>260.4</b>

A Geographical analysis of external revenues by destination is provided in the Operational Review on page 16.

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

	2015 £m	2014 £m
UK	67.2	84.6
USA	55.8	75.3
Rest of World	48.0	51.8
	<b>171.0</b>	<b>211.7</b>

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):

	2015 £m	2014 £m
Included in administrative expenses:		
Research and development expenditure	26.9	27.6
Bad debt charge	0.2	0.3
Depreciation of property, plant and equipment – owned assets	3.5	4.5
Depreciation of property, plant and equipment – leased assets	0.1	0.2
Amortisation of intangible assets	6.7	7.1
Operating lease rentals for plant and machinery	0.5	0.5
Operating lease rentals for land and buildings	6.5	6.8
Net foreign exchange gains	(3.8)	(2.2)
Share based payment charge	1.5	1.4

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 foreign currency 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 2015 (2014: £nil) with the primary criteria for non capitalisation being technical and commercial feasibility not being achieved until very late in the development cycle for new product releases.

### Auditor's remuneration

	2015 £m	2014 £m
Audit of the Group financial statements	0.4	0.3
Other fees to auditors:		
Local statutory audits for subsidiaries	0.1	0.1
Taxation compliance services	0.3	0.2
Other services	0.4	0.1

### Staff costs

	2015 £m	2014 £m
Wages and salaries	123.4	120.1
Social security costs	15.5	15.5
Pension costs (included in administrative expenses)	4.6	4.3
Expense of share based payments	1.5	1.4
	<b>145.0</b>	<b>141.3</b>

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 £4.6 million (2014: £4.3 million).

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

	2015 Number	2014 Number
Administration and sales	1,276	1,201
Production	2,228	2,044
	<b>3,504</b>	<b>3,245</b>



<b>Finance costs</b>	<b>2015 £m</b>	<b>2014 £m</b>
Bank loans	0.1	0.3
Other interest paid	–	0.1
	<b>0.1</b>	<b>0.4</b>

<b>Finance income</b>	<b>2015 £m</b>	<b>2014 £m</b>
Bank interest receivable	–	0.1

<b>One-off items</b>	<b>2015 £m</b>	<b>2014 £m</b>
Impairment charge	33.3	–
Redundancy and other staff costs	3.5	0.5
Other one-off items	2.3	(0.5)
	<b>39.1</b>	<b>–</b>

One-off items relate to a number of non recurring items that arose during the year.

Following a disappointing trading year in 2015 for the Group's technology operating segments and the completion of the 2015 operational review, the group has determined that the carrying value of goodwill in its Language Technology and Non-Core Businesses operating segments were impaired by £33.3 million. Further details are provided in Note 11.

The Group began to right size technology sales, marketing and operations teams in the second half of 2015. These actions, together with the departure of the Group CEO, to non recurring redundancy costs of £3.0m being incurred in the year. The Group also sought to retain key employees during this time of change within the organisation and hence retention packages have been provided to these individuals. The 2015 charge represents the time based cost of these incentive packages in 2015 and further costs will be incurred in 2016 as the service periods elapse. The total charge for non recurring retention and staff related costs in the year was £0.5 million.

Other one-off items relate to professional and related fees associated with the Group's operational review and corporate consolidations carried out in 2015 and non recurring indirect tax liabilities. The Group has grown through acquisition over the past 10 years and inherited a complex and costly group structure. Major corporate consolidation projects have occurred in the United States, the Netherlands, Belgium and France in 2015. Some further costs will be incurred in 2016 associated with the completion of this simplification exercise.

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:

<b>Consolidated income statement</b>	<b>2015 £m</b>	<b>2014 £m</b>
<i>Current taxation</i>		
<i>UK Income tax charge</i>		
Current tax on income for the period	1.9	0.9
Adjustments in respect of prior periods	0.1	0.1
	<u>2.0</u>	1.0
<i>Foreign tax</i>		
Current tax on income for the period	4.9	5.0
Adjustments in respect of prior periods	0.5	(0.1)
	<u>5.4</u>	4.9
<b>Total current taxation</b>	<b><u>7.4</u></b>	<b>5.9</b>
<i>Deferred income taxation</i>		
Origination and reversal of temporary differences	(1.9)	(3.1)
<b>Total deferred income tax</b>	<b><u>(1.9)</u></b>	<b>(3.1)</b>
<b>Tax expense (see (b) below)</b>	<b><u>5.5</u></b>	<b>2.8</b>

<b>Consolidated statement of other comprehensive income</b>	<b>2015 £m</b>	<b>2014 £m</b>
<i>Current taxation</i>		
<i>UK Income tax charge</i>		
Income tax charge on currency translation differences on foreign currency quasi equity loans to foreign subsidiaries	0.7	1.1
<b>Total current taxation</b>	<b><u>0.7</u></b>	<b>1.1</b>

A tax credit in respect of share based compensation for current taxation of £nil (2014: £nil) has been recognised in the statement of changes in equity in the year.

A tax debit in respect of share based compensation for deferred taxation of £0.1 million (2014: £nil) 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 20.3% (2014: 21.5%). The differences are reconciled below:

<b>Consolidated income statement</b>	<b>2015 £m</b>	<b>2014 £m</b>
(Loss) / profit on ordinary activities before tax	(25.2)	9.4
(Loss) / profit on ordinary activities at standard rate of tax in the UK 20.3% (2014: 21.5%)	(5.1)	2.0
Expenses not deductible for tax purposes	1.2	0.4
Impairment of goodwill	6.7	–
Adjustments in respect of previous years	0.6	0.1
Depreciation in excess of capital allowances	0.3	–
Recognition of tax losses brought forward previously not recognised	(1.7)	(2.1)
Utilisation of tax losses brought forward previously not recognised	(0.6)	(1.6)
Current tax losses not available for offset	2.6	3.6
Effect of overseas tax rates	0.6	0.3
Other	0.9	0.1
<b>Tax expense (see (a) above)</b>	<b><u>5.5</u></b>	<b>2.8</b>



## (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.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly.

## (d) Deferred income tax:

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

	Recognised 2015 £m	Unrecognised 2015 £m	Recognised 2014 £m	Unrecognised 2014 £m
Depreciation in advance of capital allowances	0.5	–	0.5	–
Other short-term temporary differences	(2.3)	–	(3.5)	–
Tax losses	4.7	35.6	3.9	34.4
Net deferred income tax asset	2.9	35.6	0.9	34.4

The Group has unrecognised tax losses in net terms of £35.6 million (2014: £34.4 million) that may be available for use by offset against future taxable profits in the companies in which the losses arose.

Deferred tax assets have not been recognised in companies where either there is a history of losses or the Group cannot foresee profitability with sufficient certainty. The unrecognised losses disclosed above excluded the Group's estimate of time barred losses which will not be available for offset in future years.

Included within other short term temporary differences are deferred tax assets in respect of potential Schedule 23 tax benefits of £0.4 million (2014: £0.5 million) and a deferred tax liability in respect of the amortisation of certain intangible assets acquired of £2.9 million (2014: £4.2 million).

The Group has recognised deferred tax assets on losses of £4.7 million (2014: £3.9 million). The amounts recognised are based on the historical profitability and the forecast future taxable profits of the relevant entities.

At 31 December 2015, the net deferred income tax position is represented by a deferred income tax asset of £6.0 million (2014: £5.3 million) and a deferred income tax liability of £3.1 million (2014: £4.4 million).

## (e) Reconciliation of movement on deferred tax liability:

	2015 £m	2014 £m
At 1 January	4.4	6.0
Retranslation of opening balances	–	–
Deferred tax liability arising on intangible assets acquired	–	–
Reversal of temporary differences arising on the amortisation of intangibles	(1.3)	(1.4)
Other temporary differences arising in the period	–	(0.2)
<b>Deferred tax liability at 31 December</b>	<b>3.1</b>	<b>4.4</b>



(f) Reconciliation of movement on deferred tax asset:

	2015 £m	2014 £m
At 1 January	5.3	3.7
Retranslation of opening balances	0.1	0.1
Temporary differences arising in the period	0.7	1.5
Deferred income tax asset arising on share based payments recorded in statement of changes in equity	(0.1)	–
Other temporary differences arising in the period	–	–
<b>Deferred tax asset at 31 December</b>	<b>6.0</b>	<b>5.3</b>

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and to 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the company's future current tax charge accordingly. The deferred tax asset of £6.0 million (2014: £5.3 million) and liability of £3.1 million at 31 December 2015 (2014: £4.4 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

	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2014 was 2.5 pence per share. (Year ended 31 December 2013: Nil)	2.0	–

A final dividend for the year ended 31 December 2015 of 3.1 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 loss after tax of £30.7 million (2014: profit of £6.6 million) and 81,101,706 (2014: 80,758,772) 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 2015, the diluted ordinary shares were based on 81,823,905 ordinary shares that included 722,199 potential ordinary shares.

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

	2015 £m	2014 £m
(Loss) / profit for the year	(30.7)	6.6
One-off costs (including impairment loss)	39.1	–
Amortisation of intangible fixed assets	6.7	7.1
Less: tax benefit associated with the amortisation of intangible fixed assets	(1.3)	(1.4)
Tax benefit associated with one-off items	(0.6)	–
Adjusted profit for the year	<b>13.2</b>	<b>12.3</b>

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



	2015 No.	2014 No.
Weighted average number of ordinary shares for basic earnings per share	81,101,706	80,758,772
Effect of dilution resulting from share options	722,199	614,620
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>81,823,905</b>	81,373,392

	2015	2014
Adjusted earnings per ordinary share – basic (pence)	<b>16.13</b>	15.10
Adjusted earnings per ordinary share – diluted (pence)	<b>15.99</b>	14.98

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
<i>Cost:</i>					
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 1 January 2015	2.0	22.0	3.8	–	27.8
Additions	0.4	2.1	0.2	–	2.7
Disposals	–	(1.2)	(0.3)	–	(1.5)
Currency adjustment	0.3	3.6	(0.5)	–	3.4
<b>At 31 December 2015</b>	<b>2.7</b>	<b>26.5</b>	<b>3.2</b>	<b>–</b>	<b>32.4</b>

	Leasehold Improvements £m	Computer Equipment £m	Fixtures & Fittings £m	Motor Vehicles £m	Total £m
<i>Accumulated depreciation:</i>					
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 1 January 2015	(1.3)	(16.4)	(2.7)	–	(20.4)
Provided during the year	(0.2)	(3.2)	(0.2)	–	(3.6)
Disposals	–	1.1	0.3	–	1.4
Currency adjustment	(0.4)	(3.6)	0.5	–	(3.5)
<b>At 31 December 2015</b>	<b>(1.9)</b>	<b>(22.1)</b>	<b>(2.1)</b>	<b>–</b>	<b>(26.1)</b>

	Leasehold Improvements £m	Computer Equipment £m	Fixtures & Fittings £m	Motor Vehicles £m	Total £m
<i>Net book value</i>					
<b>At 31 December 2015</b>	<b>0.8</b>	<b>4.4</b>	<b>1.1</b>	<b>–</b>	<b>6.3</b>
At 1 January 2015	0.7	5.6	1.1	–	7.4

Included in property, plant and equipment are assets held under finance lease of £0.1 million at 31 December 2015 (2014: £0.1 million).



## 9 Intangible assets

	Customer Relationships £m	Intellectual Property £m	Goodwill £m	Total £m
<i>Cost</i>				
At 1 January 2014	20.1	60.6	213.5	294.2
Currency adjustment	0.1	–	0.6	0.7
At 1 January 2015	20.2	60.6	214.1	294.9
Acquisitions	–	0.3	–	0.3
Currency adjustment	0.1	(0.2)	0.3	0.2
<b>At 31 December 2015</b>	<b>20.3</b>	<b>60.7</b>	<b>214.4</b>	<b>295.4</b>
<i>Amortisation and impairment</i>				
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 1 January 2015	(14.5)	(45.2)	(32.6)	(92.3)
Provided during the year	(1.9)	(4.8)	–	(6.7)
Impairment loss	–	–	(33.3)	(33.3)
Currency adjustment	0.1	(0.1)	–	–
<b>At 31 December 2015</b>	<b>(16.3)</b>	<b>(50.1)</b>	<b>(65.9)</b>	<b>(132.3)</b>
<i>Net book value</i>				
<b>At 31 December 2015</b>	<b>4.0</b>	<b>10.6</b>	<b>148.5</b>	<b>163.1</b>
At 1 January 2015	5.7	15.4	181.5	202.6

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 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
<i>Held directly:</i>				
SDL Sheffield Limited	England & Wales	Ordinary	100%	Language Services
SDL 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%	Language Services and Technology
SDL Poland Sp zoo	Poland	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 Nominees Ltd	England & Wales	Ordinary	100%	Holding Company
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
SDL Global Limited	England & Wales	Ordinary	100%	Holding company
SDL Portugal Unipessoal LDA	Portugal	Ordinary	100%	Language Services
<i>Held indirectly:</i>				
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 (Canada) Inc	Canada	Ordinary	100%	Language Services
SDL Netherlands BV	Netherlands	Ordinary	100%	Language Services
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
Trados GmbH	Germany	Ordinary	100%	Technology
SDL Tridion Development Centre LLC	Ukraine	Ordinary	100%	Technology



Name of Company	Country of Incorporation	Holding	Proportion of Voting Rights	Primary nature of Business
SDL Tridion GmbH	Germany	Ordinary	100%	Technology
Tridion AB	Sweden	Ordinary	100%	Technology
SDL Tridion Hispania SL	Spain	Ordinary	100%	Technology
SDL Tridion Ltd	England & Wales	Ordinary	100%	Technology
SDL Tridion KK	Japan	Ordinary	100%	Technology
Interlingua Group Ltd	England & Wales	Ordinary	100%	Holding company
SDL Multilingual Service GmbH	Germany	Ordinary	100%	Holding company
SDL Multilingual Services Verwaltungs GmbH	Germany	Ordinary	100%	Holding company
ZAO SDL Rus	Russia	Ordinary	100%	Language Services
XyEnterprise LLP	United States of America	Ordinary	100%	Technology
XyEnterprise Ltd	England & Wales	Ordinary	100%	Technology
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 SRL	Romania	Ordinary	100%	Technology
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 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
SDL Government Inc	United States of America	Ordinary	100%	Technology
Alpnet UK Ltd	England & Wales	Ordinary	100%	Holding Company
Computype Ltd (England)	England & Wales	Ordinary	100%	Holding Company
MediaSurface Ltd	England & Wales	Ordinary	100%	Holding Company
Alterian (Poole) Ltd	England & Wales	Ordinary	100%	Holding Company
Alterian (Newbury) Ltd	England & Wales	Ordinary	100%	Holding Company
Alterian Minorities Ltd	England & Wales	Ordinary	100%	Holding Company
Trados Belgium	Belgium	Ordinary	100%	Technology
Trados GmbH Swiss Branch	Switzerland	Ordinary	100%	Holding Company
Trados Ireland Ltd	Ireland	Ordinary	100%	Holding Company
Idiom Technology Benelux BV	Netherlands	Ordinary	100%	Holding Company

*The proportion of voting rights held is as shown above. SDL Global Limited was incorporated on 25 February 2016.*





## 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 or group of cash generating units where these represent the lowest level at which goodwill is monitored for internal reporting purposes.

Following the Group's operational review in 2015 which has led to changes in the organisational structure and management of the business, the Board has determined that there are six CGUs and four operating segments. These CGUs have been aggregated into groups of CGUs for testing as follows; Language Services, Language Technology, Global Content Technologies and Non-Core Businesses which are consistent with the Group's operating segments. The Group's operating segments are disclosed in Note 3. The Non-Core Businesses segment includes the Group's Campaign, Social Intelligence and Fredhopper CGUs and is the lowest level of unit at which the Group is effectively able to monitor goodwill for these CGUs. The prior year Technology CGU has been disaggregated to create the Language Technology, Global Content Technologies and Non-Core Businesses CGU comparatives.

The goodwill has been allocated for impairment testing purposes to these operating segments 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 and this is compared against the respective operating segments' expected realisable value.

In order to evaluate the recoverable amounts relating to the operating segments, the following key information should be noted.

The recoverable amounts have been determined using the detailed projections from the 2016 annual plan projected for a further four year period and subsequently into perpetuity, with a discount rate applied.

The discount rate has been calculated as the weighted average cost of capital. Differential post-tax discount rates were used reflecting a different risk weighting based on relative maturity and size of the different cash generating units with 10.6% applied to Language Services (2014: 10.4%), 11.6% to Language Technology and Global Content Technologies and 14.5% to the Non Core Businesses (2014: Technology 11.1%). These discount rates reflect the relative maturity of the businesses and the risk associated with the respective operating segment forecasts. In aggregate, these discount rates approximate a group cost of capital of 11.4% for 2015 (2014: 10.8%). Pre-tax discount rates were 14.4% for Language Services, 15.5% for Language Technology, 15.3% for Global Content Technologies and 18.3% for Non-Core Businesses. (2014: 12.9% to 13.4%). 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 2016 Group annual plan.

This methodology places strong emphasis on early year cash flows and revenue growth assumptions in evaluating impairment. A common 2% perpetual growth rate has been used for all operating segments reflecting the relative maturity, penetration and profile of the operating segments (2014: 2% Language Services and 3% Technology operating segments respectively). Differential growth rates have been applied to the different operating segments beyond the budget period. These are 6% (2014: 5%) for Language Services, 6.5% for Language Technology, 8% for Global Content Technologies and 27% for the Non Core Businesses (2014: 9% for Technology operating segments).

Following a disappointing trading year in 2015 for the Group's technology operating segments and the completion of the 2015 operational review, the group has determined that the carrying value of goodwill in its Language Technology and Non-Core Businesses operating segments were impaired by £33.3 million. This amount was recognised in the income statement in 2015 (see note 4).

### Carrying amount of goodwill allocated to operating segments:

	2015 £m	2014 £m
Language Services	21.1	21.1
Language Technology	48.0	64.1
Global Content Technologies	59.2	59.0
Non-Core Businesses	20.2	37.3
	<b>148.5</b>	181.5

### Sensitivity to changes in assumptions

Management has identified three key assumptions which significantly impact the impairment amounts of the Language Technology and Non-Core Businesses operating segments. The following table shows the absolute amount by which the impairment would change for unfavourable movements in these assumptions.

Change to the recoverable amount (£m)	Language Technology	Non Core Businesses
Discount Rate (0.5%)	(2.7)	(1.3)
Perpetuity growth rate (1%)	(3.5)	(1.6)
Revenue growth (1%)	(3.1)	(1.3)



The recoverable amount of the Global Content Technologies operating segment exceeds its carrying amount by £9.3 million. The change in the assumptions above required for the recoverable amount of the Global Content Technologies operating segment to equal its carrying amount would be a 3.0% reduction in revenue assumptions or a 1.3% increase in the discount rate. The elimination of the perpetuity growth rate alone would not lead to the recoverable amount being less than or equal to the operating segment carrying value.

Having performed its impairment test on the Language Services operating segment 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 operating segment to exceed its recoverable amount.

#### Next impairment test

The next impairment tests will be performed at the 2016 year end. However, management continues to monitor the performance of its operating segments 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)

	2015 £m	2014 £m
Trade receivables	56.4	52.8
Prepayments and accrued income	17.0	16.6
	<b>73.4</b>	69.4

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 2015, trade receivables at nominal value of £1.5 million (2014: £1.4 million) were impaired and provided for.

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

	£m
At 1 January 2014	2.0
Charge for the year	0.2
Utilised in the year	(0.8)
Currency adjustment	–
At 31 December 2014	1.4
Charge for the year	0.2
Utilised in the year	(0.1)
Currency adjustment	–
<b>At 31 December 2015</b>	<b>1.5</b>

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

	Total £m	Not past due £m	Past due		
			<30 days £m	30-60 days £m	>60 days £m
<b>2015</b>	<b>56.4</b>	<b>45.2</b>	<b>6.7</b>	<b>0.6</b>	<b>3.9</b>
2014	52.8	42.7	6.2	1.6	2.3

The majority of the impairment provision is recorded in amounts greater than 60 days in 2015 and 2014.



## 13 Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand	<b>17.2</b>	22.1

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 £17.2 million (2014: £22.1 million).

At 31 December 2015, the Group had available £20.2 million (2014: £21 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)

	2015 £m	2014 £m
Trade payables	<b>6.1</b>	7.1
Other taxes and social security costs	<b>3.0</b>	3.7
Other payables	<b>6.8</b>	5.9
Accruals and deferred income	<b>65.8</b>	67.3
	<b>81.7</b>	84.0

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)

	2015 £m	2014 £m
Other payables	–	0.1
Deferred income	<b>1.4</b>	1.2
	<b>1.4</b>	1.3

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 2015 £m	Interest 2015 £m	Present value of minimum lease payments 2015 £m	Future minimum lease payments 2014 £m	Interest 2014 £m	Present value of minimum lease payments 2014 £m
Within one year	<b>0.1</b>	–	<b>0.1</b>	0.4	–	0.4
After one year but not more than five years	–	–	–	0.1	–	0.1
	<b>0.1</b>	–	<b>0.1</b>	0.5	–	0.5



## 16 Loans and overdraft

	2015 £m	2014 £m
<b>Current liabilities</b>		
Instalments due on bank loans	–	9.0
<b>Non-current liabilities</b>		
Instalments due on bank loans	<b>4.6</b>	–

During the year, the Group repaid its borrowings from Royal Bank of Scotland. On 3 August 2015, the Group signed a new 5 year £25 million revolving credit facility with HSBC plc, expiring on 2 August 2020. The agreement includes the provision of a £25 million Accordion (uncommitted) facility. The Group drew down £4.8 million of new borrowings and the balance sheet amount is stated net of £0.2m arrangement and related fees.

Draw downs under the £25 million revolving credit facility are repayable in one, three and six month instalments and amounts can be redrawn at any time as long as covenant and other conditions are met. Accordingly drawdowns under this facility have been categorised as non-current. The loan bears interest at LIBOR+ margin, the margin varying between 1.15% and 1.9% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation and amortisation. The Company and a number of subsidiaries have entered into cross guarantee arrangements to secure the drawings under this facility.

## 17 Provisions

	Property Leases £m	Other £m	Total £m
At 1 January 2015	0.8	2.5	3.3
Arising during the year	–	0.5	0.5
Released during the year	–	(0.1)	(0.1)
Utilised	(0.2)	(0.2)	(0.4)
<b>At 31 December 2015</b>	<b>0.6</b>	<b>2.7</b>	<b>3.3</b>
<b>Current 2015</b>	<b>0.2</b>	<b>2.7</b>	<b>2.9</b>
<b>Non-current 2015</b>	<b>0.4</b>	–	<b>0.4</b>
Current 2014	0.3	2.5	2.8
Non-current 2014	0.5	–	0.5
	0.8	2.5	3.3

### 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 £0.7 million (2014: £0.9 million).

### Other

Other provisions include a number of employee, legal, tax and product related amounts. Obligations are expected to be payable within 1 year. Included in the above is a provision for £1.4 million (2014: £1.4 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. This liability has been settled in February 2016.



## 18 Share capital

### Allotted, called up and fully paid

	2015 millions	2014 millions	2015 £m	2014 £m
<b>Ordinary shares of 1p each</b>				
At 1 January	81.0	80.4	0.8	0.8
Issued on exercise of share options	0.1	0.3	-	-
Issued on exercise of LTIPS	0.1	0.2	-	-
Issued as payment of contingent consideration	0.1	0.1	-	-
At 31 December	<b>81.3</b>	81.0	<b>0.8</b>	0.8

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

- 101,571 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (1999), SDL Share Option Scheme (2010) and earlier Unapproved Option Schemes at a price range of 119 pence to 375 pence per share for an aggregate consideration of £264,321.
- 138,205 ordinary shares of 1p each were allotted under the SDL LTIP 2011 Scheme.
- 2,844 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £7,997.
- In March 2015, 87,068 ordinary shares of 1p each were allotted to four former shareholders of Bemoko Consulting Limited as final 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 £1.5 million relating to the Group's employee share schemes (2014: charge of £1.4 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:

	2015 No.	2015 WAEP	2014 No.	2014 WAEP
Outstanding at the beginning of the year	883,674	£4.03	1,175,018	£3.83
Granted during the year	517,000	£3.77	227,500	£3.34
Forfeited during the year	(528,999)	£4.27	(224,476)	£5.76
Exercised during the year	(102,590)	£2.61	(294,368)	£1.26
Outstanding at the end of the year	<b>769,085</b>	<b>£3.87</b>	883,674	£4.03
Exercisable at 31 December	<b>145,585</b>	<b>£2.84</b>	248,175	£2.74

The weighted average share price at the date of exercise for the options exercised is £3.87 (2014: £3.11).

For the share options outstanding as at 31 December 2015, the weighted average remaining contractual life is 7.77 years (2014: 6.98 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:

	2015	2014
Weighted average share price (pence)	387	335
Weighted average fair value at grant date (pence)	110	90
Expected volatility	38%	38%
Expected option life	3 years	3 years
Expected dividends	0.57%	0%
Risk-free interest rate	0.71%	1.11%



The range of exercise prices for options outstanding at the end of the year was £2.79-£4.45 (2014: £1.19-£7.48).

Exercise price	Date of Grant	Exercise Period	2015 Number	2014 Number
£1.01 - £1.50	02/04/04-04/04/05	10 years after grant date	–	7,500
£2.01 - £2.50	22/03/06-03/10/06	10 years after grant date	–	23,700
£2.51 - £3.00	28/02/08-02/03/09	10 years after grant date	145,585	211,775
£3.01 - £3.50	07/04/14	10 years after grant date	185,500	216,500
£3.51 - £4.00	23/05/07	10 years after grant date	–	5,200
£4.01 - £4.50	17/04/13-17/04/15	10 years after grant date	438,000	298,343
£7.01 - £7.50	10/04/12	10 years after grant date	–	120,656
Total			769,085	883,674

### 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 17 April 2015, 767,206 shares were granted under the 2011 Plan to the Executive Directors based on a market price of £4.37, with a performance period of three years from date of grant.

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:

	2015	2014
Expected volatility	38%	39%
Weighted average fair value at grant date (pence)	385	221
Expected life	3 years	3 years
Expected dividends	0.57%	0%
Risk-free interest rate	0.71%	1.00%

	2015 No.	2015 WAEP	2014 No.	2014 WAEP
Outstanding at the beginning of the year	2,118,049	£0.01	1,913,838	£0.01
Granted during the year	767,206	£0.01	1,149,547	£0.01
Exercised during the year	(138,205)	£0.01	(74,454)	£0.01
Forfeited during the year	(1,841,007)	£0.01	(870,882)	£0.01
Outstanding at the end of the year	906,043	£0.01	2,118,049	£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 was made to a small targeted group of executives (excluding Executive Directors). Awards are based on a percentage of salary and vest in equal tranches, 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 27 April 2015, 280,430 shares were granted under the RSP to a small group of senior management excluding Executive Directors. This plan is due to vest on the anniversary of the grant date i.e. April 2016.

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:

	2015	2014
Expected volatility	29.8%	43.9%
Weighted average fair value at grant date (pence)	464	343
Expected life	1 year	1 year
Expected dividends	0.5%	0%
Risk-free interest rate	0.37%	0.22%
	2015 No.	2014 No.
Outstanding at the beginning of the year	168,500	678,196
Granted during the year	280,430	52,000
Exercised during the year	(147,000)	(135,500)
Forfeited during the year	(26,216)	(426,196)
Outstanding at the end of the year	275,714	168,500
Exercisable at 31 December	19,000	21,500

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 2015, 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:

	2015 No.	2014 No.
Outstanding at the beginning of the year	633,342	391,447
Granted during the year	117,454	432,141
Exercised during the year	(2,844)	(1,106)
Forfeited during the year	(74,827)	(189,140)
Outstanding at the end of the year	673,125	633,342
Exercisable at 31 December	Nil	Nil

For the SAYE shares outstanding as at 31 December 2015, the weighted average remaining contractual life is 1.5 years (2014: 2.18 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:

	2015	2014
Weighted average share price (pence)	435	317
Expected volatility	37.5%	37%
Expected option life	3.2 years	1.6 years
Expected dividends	0.57%	0%
Risk-free interest rate	0.93%	1.27%

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 2015	Cash flow	Cash acquired on acquisition	Exchange differences	31 December 2015
	£m	£m	£m	£m	£m
Cash and cash equivalents	22.1	(3.4)	–	(1.5)	<b>17.2</b>
Loans and overdrafts*	(9.0)	4.2	–	–	<b>(4.8)</b>
	<b>13.1</b>	<b>0.8</b>	<b>–</b>	<b>(1.5)</b>	<b>12.4</b>

\* Loans and overdrafts are stated gross i.e. before the impact of a £0.2m arrangement fee prepayment

	1 January 2014	Cash flow	Cash acquired on acquisition	Exchange differences	31 December 2014
	£m	£m	£m	£m	£m
Cash and cash equivalents	18.2	4.4	–	(0.5)	22.1
Loans and overdrafts	(20.0)	11.0	–	–	(9.0)
	<b>(1.8)</b>	<b>15.4</b>	<b>–</b>	<b>(0.5)</b>	<b>13.1</b>

## 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	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Within one year	<b>4.3</b>	4.3	<b>0.6</b>	0.2	<b>4.9</b>	4.5
After one year but not more than five years	<b>10.3</b>	11.9	<b>0.6</b>	0.2	<b>10.9</b>	12.1
More than five years	<b>0.3</b>	0.5	–	–	<b>0.3</b>	0.5
	<b>14.9</b>	16.7	<b>1.2</b>	0.4	<b>16.1</b>	17.1

The future minimum rentals receivable under non-cancellable operating leases as at 31 December 2015 were £0.2 million (2014: £0.2 million).

The Group operates in 40 countries around the world and, in common with other multinational organisations, is subject to ongoing tax audits and reviews. The Group operates in line with local and global regulations and maintains provisions where any deviations from these regulations are identified. The nature of tax compliance is inherently subject to interpretation and hence additional liabilities or exposures could arise.

## 22 Related party disclosures

### Compensation of key management personnel of the Group

	2015 £m	2014 £m
Short term employee benefits	<b>2.4</b>	2.2
Post employment benefits	<b>0.1</b>	0.1
<b>Total compensation paid to key management personnel</b>	<b>2.5</b>	2.3

Full details of the Directors' remuneration is included in the Directors' Remuneration Report on pages 42 to 58.

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 4 to 27.

*Interest Rate Risk:* Net cash has decreased from £13.1 million in 2014 to £12.4 million cash in 2015. Borrowings amounted to £4.6 million at December 2015 (see note 16) which bears interest at LIBOR+ margin, the margin varying between 1.15% and 1.9% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation and amortisation. 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:

<b>Profit before tax gain/(loss)</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
+ 1 %	-	(0.1)
- 1 %	-	0.1

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

<b>Profit before tax gain/(loss)</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
+ 1 %	-	-
- 1 %	-	-

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

<b>Profit before tax gain/(loss)</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
+ 1 %	-	0.1
- 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 2015, the Group had net cash of £12.4 million which comprised of cash balances of £17.2 million and loans of £4.8 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 2 August 2020.

*Foreign Currency Risk:* A significant amount of business is done with customers in both the USA and Continental Europe with approximately 47% of total invoicing done in US Dollar and 26% 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 2015, 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)	2015 £m	2014 £m
+ 1 %	(0.9)	(0.8)
- 1 %	0.9	0.8
Statement of Financial Position* increase/(decrease) in net assets		
+ 1 %	(0.8)	(0.7)
- 1 %	0.8	0.7

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

Profit before tax gain/(loss)	2015 £m	2014 £m
+ 1 %	(0.2)	-
- 1 %	0.2	-
Statement of Financial Position* increase/(decrease) in net assets		
+ 1 %	(0.7)	(1.3)
- 1 %	0.7	1.3

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

*Economic Conditions - Credit Control Risk:* - 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, cash and cash equivalents and borrowing balances 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 ended 31 December 2015 of [3.1] pence per share. Neither the Company nor the Group is subject to externally imposed capital requirements.

## 24 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 2015

Floating rate	2015 £m	2014 £m
Cash	1.1	2.4
Borrowings	(4.6)	(9.0)

### Maturity of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015:

	Less than 12 months £m	Over 12 months £m	Total £m
Trade and other payables	39.1	-	39.1
Long term loans	-	4.6	4.6
Finance lease liability	0.1	-	0.1
	39.2	4.6	43.8



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

	Less than 12 months £m	Over 12 months £m	Total £m
Trade and other payables	39.8	0.1	39.9
Short term loans	9.0	-	9.0
Finance lease liability	0.4	0.1	0.5
	49.2	0.2	49.4

The above tables exclude deferred income and state tax creditors.

The future contractual cash outflows related to the Group's financial liabilities is not materially different from its carrying amount.

#### **Borrowing facilities**

The Group maintains a £25 million facility with HSBC Bank PLC which expires on 2nd August 2020. The amount drawn at 31 December 2015 was £4.8 million.

#### **Credit risk**

The maximum credit risk exposure related to financial assets is £68.6 million (2014: £64.0 million) represented by the carrying value of trade debtors and other receivables excluding prepayment and cash.

#### **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 2015 (2014: None).

The interest rate risk on the borrowings at 31 December 2015 is directly linked to the 1, 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 2015

	Notes	2015 £m	2014 £m
<b>Fixed assets</b>			
Tangible assets	2	0.7	0.8
Investment in subsidiaries	3	149.9	199.9
Rent deposits		0.1	0.1
		<b>150.7</b>	200.8
<b>Current assets</b>			
Debtors	4	105.7	68.6
Cash at bank and in hand		1.0	3.6
		<b>106.7</b>	72.2
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	5	(120.9)	(132.0)
Interest bearing loans and borrowings	6	-	(9.0)
		<b>(120.9)</b>	(141.0)
<b>Net Current Assets / (Liabilities)</b>		<b>(14.2)</b>	(68.8)
<b>Total assets less current liabilities</b>		<b>136.5</b>	132.0
<b>Creditors: amounts falling due after more than one year</b>			
Interest bearing loans and borrowings	6	(4.6)	-
Other payables	7	(0.4)	(0.5)
		<b>(5.0)</b>	(0.5)
<b>Provisions for liabilities and charges</b>	8	<b>(2.4)</b>	(2.8)
		<b>129.1</b>	128.7
<b>Capital and reserves</b>			
Called up share capital	9	0.8	0.8
Share premium account		98.5	97.9
Profit and loss account		29.8	30.0
<b>Total equity</b>		<b>129.1</b>	128.7

Approved by the Board of directors on 15 March 2015

**D Clayton**  
Director

**D Lavelle**  
Director



# Company Statement of Changes in Equity

For the year ended 31 December 2015

	Share Capital £m	Share Premium Account £m	Profit & Loss Account £m	Total £m
<b>At 1 January 2014</b>	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
<b>At 1 January 2015</b>	0.8	97.9	30.0	128.7
Profit for the period	–	–	0.6	0.6
Dividend paid	–	–	(2.0)	(2.0)
Currency translation differences on net investments	–	–	(0.1)	(0.1)
Arising on share issues	–	0.6	–	0.6
Share based payments	–	–	1.3	1.3
<b>At 31 December 2015</b>	<b>0.8</b>	<b>98.5</b>	<b>29.8</b>	<b>129.1</b>



# Notes to the Accounts

for the year ended 31 December 2015

## 1 Accounting policies

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

### Basis of preparation

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. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section s408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position of the Company is provided in note 12.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and investments in subsidiaries;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period for the reclassification of items in the financial statements (see note 12); and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments; and

- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.
- The Company proposes to continue the reduced disclosure framework of FRS 101 in its next financial statements.

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

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

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### 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 considers the use of forward foreign currency contracts and interest rate swaps to reduce exposure to foreign exchange and interest rates. Where such instruments are taken out, they 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.

Non derivative financial instruments comprise debtors, cash at bank and in hand, interest bearing loans and borrowings and creditors.

### Debtors

Debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.





### Creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

### Interest bearing loans and borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

### Cash

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

### Leases

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

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. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

### Research and development

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.

### 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 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 Company 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 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 Company'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 profit and loss account.

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.

### Investments in subsidiaries

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

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

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 (cash generating units).

### 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.

### 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*

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by transition date.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary.



## 2 Tangible fixed assets

	Leasehold Improvements £m	Computer Equipment £m	Fixtures & Fittings £m	Total £m
<i>Cost</i>				
At 1 January 2015	0.6	1.6	0.4	2.6
Additions	–	0.3	–	0.3
Disposals	–	(0.4)	(0.2)	(0.6)
<b>At 31 December 2015</b>	<b>0.6</b>	<b>1.5</b>	<b>0.2</b>	<b>2.3</b>
<i>Depreciation</i>				
At 1 January 2015	(0.5)	(1.0)	(0.3)	(1.8)
Provided during the year	–	(0.4)	–	(0.4)
Disposals	–	0.4	0.2	0.6
<b>At 31 December 2015</b>	<b>(0.5)</b>	<b>(1.0)</b>	<b>(0.1)</b>	<b>(1.6)</b>
<i>Net book value</i>				
<b>At 31 December 2015</b>	<b>0.1</b>	<b>0.5</b>	<b>0.1</b>	<b>0.7</b>
At 31 December 2014	0.1	0.6	0.1	0.8

## 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
<i>Cost</i>	
At 1 January 2015	220.3
Additions	4.8
Disposals	(2.0)
<b>At 31 December 2015</b>	<b>223.1</b>
<i>Impairment</i>	
At 1 January 2015	(20.4)
Charge for the year	(52.8)
<b>At 31 December 2015</b>	<b>(73.2)</b>
<b>At 31 December 2015</b>	<b>149.9</b>
At 31 December 2014	199.9

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

Following a disappointing trading year in 2015 for the Company's technology businesses, the Company has completed its 2015 operational review. The Company has determined that the carrying value of one of its subsidiaries is fully impaired by £52.8 million. This amount was recognised in the Company's income statement in 2015.



## 4 Debtors

<b>Debtors: Amounts falling due within one year</b>	<b>2015</b>	2014
	<b>£m</b>	£m
Trade debtors	6.8	7.2
Amounts owed by Group undertakings	81.2	55.1
Corporation Tax	0.8	0.8
Deferred income tax asset	1.2	1.2
Prepayments and accrued income	3.7	4.3
	<b>93.7</b>	68.6

<b>Debtors: Amounts falling due after more than one year</b>	<b>2015</b>	2014
	<b>£m</b>	£m
Amounts owed by Group undertakings	12.0	10.1
	<b>12.0</b>	10.1

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

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

	<b>Recognised</b>	<b>Unrecognised</b>	Recognised	Unrecognised
	<b>2015</b>	<b>2015</b>	2014	2014
	<b>£m</b>	<b>£m</b>	£m	£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	–	–	–	–
Net deferred income tax asset	<b>1.2</b>	–	1.2	–

Reconciliation of movement on deferred tax asset:

	<b>2015</b>	2014
	<b>£m</b>	£m
At 1 January	1.2	1.2
<b>Deferred tax asset at 31 December</b>	<b>1.2</b>	1.2

The Company has tax losses in net terms of £nil (2014: £nil) 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

<b>Creditors: amounts falling due within one year</b>	<b>2015</b>	2014
	<b>£m</b>	£m
Trade creditors	1.5	1.9
Amounts owed to Group undertakings	107.4	120.6
Corporation tax	1.6	0.7
Other taxes and social security costs	0.4	0.3
Other creditors	0.5	0.5
Accruals and deferred income	9.5	8.0
	<b>120.9</b>	132.0



## 6 Interest bearing loans and borrowings

<b>Creditors: amounts falling due within one year</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Instalments due on bank loans	-	9.0
<b>Creditors: amounts falling due after one year</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Instalments due on bank loans	4.6	-

During the year, the Company repaid its borrowings from Royal Bank of Scotland. On 3 August 2015, the Group signed a new 5 year £25 million revolving credit facility with HSBC plc, expiring on 2 August 2020. The agreement includes the provision of a £25 million Accordion (uncommitted) facility. The Group drew down £4.8 million of new borrowings and the balance sheet amount is stated net of £0.2 million arrangement and related fees.

Draw downs under the £25 million revolving credit facility are repayable in one, three and six month instalments and amounts can be redrawn at any time as long as covenant and other conditions are met. Accordingly drawdowns under this facility have been categorised as non-current. The loan bears interest at LIBOR+ margin, the margin varying between 1.15% and 1.9% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation and amortisation. The Company and a number of subsidiaries have entered into cross guarantee arrangements to secure the drawings under this facility.

## 7 Creditors

<b>Creditors: amounts falling due after more than one year</b>	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Other creditors	0.4	0.5
	<b>0.4</b>	<b>0.5</b>

## 8 Provisions for liabilities and charges

	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Property leases	0.3	0.3
Other	2.1	2.5
	<b>2.4</b>	<b>2.8</b>

### Movement in provisions:

	Provision 1 January 2015 £m	Arising during the year £m	Released during the year £m	Utilised during the year £m	<b>Provision 31 December 2015 £m</b>
Property leases	0.3	-	-	-	<b>0.3</b>
Other	2.5	(0.2)	(0.1)	(0.1)	<b>2.1</b>
	<b>2.8</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>2.4</b>

### 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 seven 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 £0.3 million (2014: £0.4 million).

### Other

Other provisions include a number of employee and legal amounts. Included in the above is a provision for £1.4 million (2014: £1.4 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. The Company paid \$1.85 million in full and final settlement of this litigation on February 2016.



## 9 Share capital

### Allotted, called up and fully paid

	millions	£m
<b>Ordinary shares of 1p each</b>		
At 1 January 2015	81.0	0.8
Issued on exercise of share options	0.1	–
Issued on exercise of LTIPS	0.1	–
Issued as payment of contingent consideration	0.1	–
At 31 December 2015	<b>81.3</b>	<b>0.8</b>

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

- 101,571 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (1999), SDL Share Option Scheme (2010) and earlier Unapproved Option Schemes at a price range of 119 pence to 375 pence per share for an aggregate consideration of £264,321.
- 138,205 ordinary shares of 1p each were allotted under the SDL LTIP 2011 Scheme.
- 2,844 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £7,997.
- In March 2015, 87,068 ordinary shares of 1p each were allotted to four former shareholders of Bemoko Consulting Limited as final payment of the contingent consideration due as a result of the acquisition of Bemoko Consulting Limited by the group in 2013.

## 10 Commitments and contingencies

The future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Land and Buildings	
	2015	2014
	£m	£m
Within one year	1.0	1.0
After one year but not more than five years	4.1	4.2
More than five years	0.2	1.2
	<b>5.3</b>	<b>6.4</b>

All amounts are attributable to equity holders of the parent.



## 11 Share based payment plans

During 2015, the total share based payment charge amounted to £1.5 million (2014: £1.2 million). Of this amount, £0.3 million (2014: £0.9 million) has increased the cost of investment in subsidiaries as the relevant share based payments were granted to the employees of the subsidiaries. Total share based payments recharged to subsidiaries was £0.7 million (2014: £nil). Equivalent disclosures are made in the consolidated financial statements.

## 12 Explanation of transition to FRS 101 from old UK GAPP

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 101 balance sheet, the Company has not adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP) as the transition from UK GAAP to FRS 101 has not affected the Company's financial position.

Amounts owed to group undertakings of £23.7million (2014: £24.8million) previously included in creditors: amounts falling due after more than one year were reclassified to creditors: amounts falling due within one year. This has affected the financial statement captions but not the financial statement position.

## 13 Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent Company is £0.6 million (2014: profit of £10.2 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 other known events occurring after the statement of financial position date that require disclosure.





## Five year group summary

Year Ended 31 December:	IFRS 2015 £m	IFRS 2014 £m	IFRS 2013 £m	IFRS 2012 £m	IFRS 2011 £m
Turnover (notes 1, 2 and 3)	<b>266.9</b>	260.4	266.1	269.3	229.0
Growth in revenue	<b>2%</b>	-2%	-1%	18%	13%
Operating profit before one-offs, depreciation and amortisation	<b>24.3</b>	<b>21.5</b>	<b>13.3</b>	<b>41.0</b>	<b>42.5</b>
Operating profit / (loss)	<b>(25.1)</b>	9.7	(24.0)	27.7	33.5
Profit / (loss) before tax	<b>(25.2)</b>	9.4	(24.4)	27.4	33.8
Profit / (loss) after tax	<b>(30.7)</b>	6.6	(27.9)	20.9	25.7
Non-current assets	<b>169.4</b>	210.0	218.6	243.3	161.6
Cash and cash equivalents	<b>17.2</b>	22.1	18.2	28.5	70.4
Net current assets less current liabilities	<b>(0.6)</b>	(8.7)	(17.9)	(10.3)	58.9
Total assets less current liabilities	<b>176.4</b>	208.3	206.0	239.0	226.3
Equity interests	<b>166.9</b>	202.1	196.5	227.8	217.8
Average number of employees (thousand)	<b>3.5</b>	3.2	3.2	2.8	2.3
Earnings per share – basic (adjusted for movements in capital) (notes 1, 2, and 3 )	<b>(37.93)p</b>	8.03p	(34.78)p	26.12p	32.72p
Adjusted earnings per share (before one-offs, depreciation and amortisation)	<b>16.13p</b>	15.10p	2.57p	35.41p	38.23p

### Notes:

- (1) 2011 – Acquisition of Calamares Holding BV Group
- (2) 2012 – Acquisition of Alterian plc Group
- (3) 2013- Acquisition of Bemoko Consulting Limited



# Company Information

## Directors

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

## Secretary

Pamela Pickering

## Auditor

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