# Humanising the Digital World

Annual Report 2016

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# opportunity

“Stepping onto a brand-new path is difficult, but not more difficult than remaining in a situation.”

Maya Angelou

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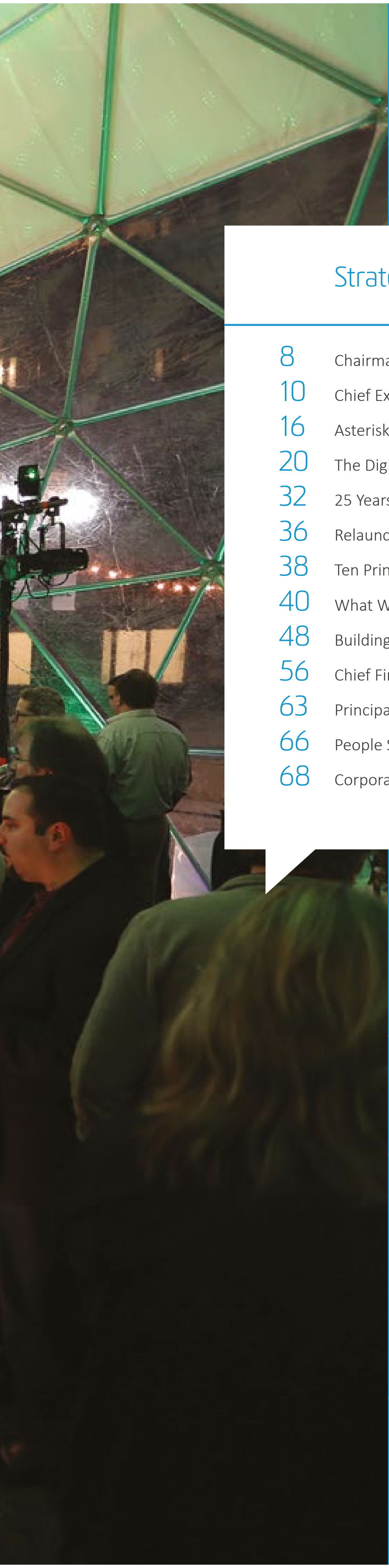
SDL



## Strategic Report

# Chairman's Introduction

## David Clayton

Looking back on the last year, 2016 was pivotal in our transformation, and it positioned SDL to take full advantage of the opportunities available to us.

## 2016 Achievements

The most important development was the recruitment of Adolfo Hernandez as Chief Executive Officer in early April 2016. Adolfo brings a wealth of experience and leadership capabilities, which I believe are critical in ensuring SDL achieves its full potential in an expanding market opportunity. He refocused our strategic plans and built an Executive Team with a deep understanding of the relevant trends at the intersection of globalisation and digital transformation and with the requisite skills and experience to deliver results. The Executive Team has been assembled with a healthy mix of people with many years of experience within SDL, carefully supplemented by the recruitment of leaders with the necessary experience of building businesses to market leadership positions.

Furthermore, in July 2016, we restructured our business so we can help our customers accelerate the global transformations of their businesses using the full portfolio of SDL's capabilities. To help convey our mission and vision, we launched a new brand identity which was well received by both customers and employees alike. The speed of delivery and the impact we were able to achieve with these initiatives is a testimony to the skills and experience of the new Executive Team.

## Operational Review

Despite big changes within the Executive leadership of SDL, I am pleased to report that we have been able to grow both revenue and profit. This growth in itself is a credit to all employees within our business. Their ability to continue to focus on delivering to the needs of our customers has been critical to the achievement of our goals. On behalf of the Board, I would like to record my thanks to all our employees for their dedication, professionalism and hard work during a time of considerable change.

As part of the operational review we undertook at the end of 2015, we decided to refocus our business and as a result decided to divest certain Non-Core businesses. Those businesses continued to deliver good results despite the distraction of the sale processes. We have successfully concluded the sale of our Campaign business and the completion of the sale of our Fredhopper business is expected during the week commencing 6 March 2017; I am sure the businesses will continue to perform well under their new ownership. The sale process for the Social Intelligence business is ongoing.

## Our Board

In addition to welcoming Adolfo Hernandez to the Board in April 2016, Christopher Humphrey joined the Board as a non-executive Director in June 2016. I would like to formally welcome Chris to the Board. He brings extensive experience to our discussions, having recently retired as the CEO of Anite plc. We have already benefitted from his relevant and valuable insight.

At the Annual General Meeting in April 2017, Chris Batterham will not stand for re-election as a Director of our Company. Having joined the Board in October 1999 and seen the Company through significant periods of growth and change we will miss his contributions as a Director and friend of SDL. His wise and thoughtful counsel to myself, the rest of the Board and my predecessors has been hugely valued.

**David Clayton**
Chairman

## Dividend

The financial results and our confidence in the future performance of the business have resulted in the Board recommending that we realign our dividend through a doubling of last year's payment. Therefore we are recommending a full year dividend of 6.2p, a 100% increase. It is the Board's intention to follow a progressive dividend policy in the future.

## Outlook

We believe that we have the right leadership team, strategy and portfolio of products and services to continue growing and further develop our market position. There is much work still to be done before we can say that SDL has reached its potential. As we continue into the next phase of our journey and execute on our strategic plan, the Board remains confident of another year of profitable growth.

# Chief Executive Officer's Review

## Adolfo Hernandez

The vast quantity and diversity of content created and delivered through global companies is the challenge our global customers are grappling with. It includes everything from marketing collateral, user guides, to community generated content.

## Market Opportunity

As a company that pioneered both managing and translating this wide array of content, I see how our business has a dramatic impact on every interaction a customer has with a product or service. And from what we can see, the amount of content delivered to worldwide customers continues to expand rapidly. About 15 years ago, Eric Schmidt of Google calculated the amount of content created from the beginning of time, and it came to 2.5 million terabytes. This same volume of content is now generated every two days.

As our world continues to transform into a more integrated global economy, the need to manage content and convey it in a meaningful way to worldwide audiences continues to grow. For SDL, this means helping companies take their digital content global, delivering it in locally relevant ways. We do this by helping companies author, manage, translate and distribute content. We also have the know-how and knowledge to help these customers go global faster and more efficiently. On top of all of this, we are adding a more robust layer of information security and confidentiality, which is growing in importance continually.

**Adolfo Hernandez, Chief Executive Officer**

With deep commitment, Adolfo values foresight, vigilance, execution and teamwork as the keys to success. CEO of SDL since April 2016, his career demonstrates his leadership: from international software and services leadership positions in companies like IBM and Sun Microsystems, to EVP of Global Software, Services & Solution Group at Alcatel-Lucent. He then spent two years as CEO in private equity-backed Acision (Xura), where a successful exit was delivered by way of a merger.

# 70% of global companies still don't have integrated content management translation processes

Source: "Remove Translation Barriers That Obstruct Digital Experience Success", Forrester Research, Inc, November 2016

We recently commissioned Forrester Research to evaluate the shift toward global web and content operations. Forrester conducted in-depth surveys with 151 business and IT professionals in the US and their efforts revealed that more than 92 percent of enterprises still struggle with localisation. The traditional process is filled with inefficiencies and less than optimal quality. Additionally, many enterprises are still trying to come to terms with even basic global rollouts, let alone fully synchronised content to the different channels that individuals in local markets prefer and use.

SDL is uniquely positioned in the market with its breadth and depth of content and language assets. Our market will stay strong despite the increasing risk of protectionism – companies will continue to sell to a global marketplace and will continue to deliver digital content to a borderless world in multiple languages and formats. And they need to control the process to get the content translated and managed efficiently.

With language and content at its core, SDL is well positioned to take advantage of these opportunities – the opportunities for SDL are here to stay.

## Business Strategy

Over the past year, the Board and the Executive Team examined our model and approach to global content by taking the time to speak with and understand the needs of our customers. We learned that although we have all the ingredients to help our customers go global successfully, we need a more integrated approach to serve them better – one that brings together all of the pieces of the content globalisation puzzle.

The most fundamental change made in the last year is the way in which we have embraced our core content management and translation strengths and built around them. We recognised the diversity and breadth of the technology and services we have and created a strategy to bring everything together to solve real customer problems.

Forrester's research on Building a Global Operational Model indicates that 70 percent of global companies still don't have integrated content management and translation processes. Our mission is to help our customers go global faster by addressing this challenge. We help facilitate understanding between companies and their customers through our range of translation services and consulting, content management systems that deliver content dynamically, and unparalleled translation technology that addresses the entire translation supply chain.

By focusing on both content and language, global expansion and local relevance, human and machine translation, our portfolio of offerings helps companies humanise the digital world by making the content they offer more relevant and personal. Herein lies our competitive differentiation: we can integrate content and language processes and stakeholders together, reach global audiences through local execution, and combine software and machine learning with a great team of services professionals around the world.

One of our most significant strategic shifts is a refocus on our customers: understanding where they are and what they need to succeed. We spent significant time sharing SDL's new strategy and ambition to work with them for our mutual success. Over the coming year, our ability to cross-sell continues to be fundamental: building our relationship with happy customers who want to expand into the full range of products and services we sell.

And to keep up with the pace of the rapidly changing digital landscape, we must be committed to prioritising our investments in technology. From a technology perspective, we are focused on building software tools to automate global content creation, content management and translation processes, simplifying the content lifecycle for our clients.

Our customers benefit from these integrated solutions so we are extending the integration of our technology portfolio throughout all of our software and services to deliver even greater value – from machine translation to predictive analytics, and from translation productivity to suggestion engines.

> “We remain committed to content management technology with an emphasis on unifying content delivery.”

## Global Content Technologies

We continue to focus on content management technology with an emphasis on unifying content delivery, so that all digital touch points are relevant and personal. By expanding our portfolio of connectors, we will bridge any source content with our translation capabilities to simplify the user experience across the content lifecycle. Our continued investment in the cloud for our content and language technologies will ensure that any company in the world, no matter what size, can access the content management and translation solutions they need.

Furthermore, we have made it a priority to make sure that our software technology is fully integratable and integrated. As an example, we are embedding translation management functionality directly within SDL Web to enable streamlined review and editing capabilities throughout the content development lifecycle. The resulting innovative integrated solution provides translators with greater context for how their work will appear in the final website, and content owners can apply last minute edits to web pages without sacrificing translation quality or consistency. Not only do our customers benefit from this type of solution, but we are extending the integration of our extensive portfolio of technology capabilities – from machine translation, predictive analytics, translation productivity, suggestion engines – throughout all of our software and services to deliver value to our customers quicker and more efficiently.

## Language Technologies

We continue to build on our position of strength in Language Technologies. Our translation productivity leadership prevails with new versions of SDL Trados Studio and SDL Trados GroupShare. With SDL Trados Studio, we are focused on driving the translation industry forward through technology that improves a translator's quality, accuracy and speed. Combined with SDL Trados GroupShare, which secures collaboration between internal and external translators and teams, translators work faster and smarter.

SDL has been at the forefront of machine translation (MT) since 2005 with the introduction of the first Statistical MT technology, and this is one of the most exciting areas of innovation I see within SDL. This year, in our latest release of SDL Trados Studio, we delivered AdaptiveMT. This innovative technology works with and not against the translator: AdaptiveMT tracks and learns from the delta between standard machine translation and personal edits, drastically speeding up translation time, improving quality and increasing usability.

We now see Neural MT as a new disruptive wave for our market, and we are significantly investing in this exciting technology. Even in its current nascent form, Neural MT offers significant quality improvements and a radically different modelling paradigm that enables new opportunities for innovation in the fields of Natural Language Processing.

Our renewed focus to commercialise MT allowed SDL to secure large wins in government entities, big enterprises and more recently even other Language Service Providers.

## Language Services

To meet the demands of our customers, SDL translates over 100 million words per month through our 1,100 in-house linguists in 38 countries and our vast network of freelance translators. To maintain our status as an ISO-certified translation company, all of our in-house and freelance translators must pass the strict guidelines and tests required by this international standard.

In 2016 we also segmented the Language Services market in terms of needs and attractiveness. As a result, we started to shift our services efforts to premium segments where high value, creative and secure content is generated at scale. For the more standard market, we have embarked on a journey to fully automate the process to deliver time and cost savings at scale.

This year, to continue to deliver high quality 24/7 service we integrated all our service delivery teams into a single global organisation, sharing best practices and resources across the globe. Our newly launched Localisation Process Consulting offering helps our global customers implement these industry best-practices based on our 25 years of experience in localising and managing global content. And to support our growth into premium verticals, we built out dedicated delivery teams that specialise in delivering to premium segments including life sciences and marketing transcreation.

Humans alone are not enough to translate all the content in the world, and SDL has always played a pioneering role in technology that increases human productivity – from the adoption of translation memory technology in 2000 to introducing machine translation paired with human post editing in 2003. Since then, we have focused on continuously training our MT engines and combined this with professional post editing to deliver optimal quality for each customer. The AdaptiveMT I mentioned earlier is expected to deliver an additional 20% productivity increase.

With our investment in machine learning and services automation, we continue to push human productivity as far as possible, combining the power of humans and machines and optimising the mix to deliver the greatest efficiency and value for our customers and our business.

> “We are on a mission to enable organisations to establish a personal connection with customers worldwide. We seek to eliminate language as a barrier to communication and help the world connect.”

## Our Customers

As a company focused on globalisation, we have a great base of global customers and our success relies heavily on our local presence in 55 offices in 38 countries around the world. Moving forward we will continue to gain a deeper understanding of our existing customers, how they use SDL solutions, what we can improve and how we can further enable and expand customer success and adoption of SDL products and services.

By analysing our customer data, we understand where we win and where we have opportunities to cross-sell. To build on our current successes, we are bringing our value proposition to market by industry vertical, executing an aligned target-selling and account-based marketing strategy within identified accounts in which we have a right to win.

We are also investing in adjacent opportunities that will enable us to grow our customer footprint, including life sciences, marketing solutions, machine learning, and connectors. Our global but local strategy, combined with human services and technology within a content and language focus will enable us to deliver transformative business results to our customers.

## Financial Performance

Financially, SDL had many positives in 2016, including significant technology deals across all its products, the return to profitability of our Global Content Technologies segment, the significant revenue growth in Machine Technology, excellent Translation Productivity performance, a turn-around in Professional Services profitability and a diversity of business from different regions, industries and customers. These are significant achievements in a year where we went through a substantial transformation.

SDL closed out the year with revenue from Continuing Operations up 10% at £264.7 million. An 8% increase in our Language Services business, 24% increase in our Language Technologies business and 6% increase in our Global Content Technologies business drove this growth. Adjusted PBTA for Continuing Operations was £27.0 million (margin 10.2%) (2015: Group £20.6 million, Continuing Operations £24.2 million, margin: 10.0%). Machine Translation technologies grew by 72%, increasing to £9.7 million in 2016 from 2015 revenue of £5.6 million as we begin to monetise this activity more proactively.

The Group finished the year with cash balances of £21.3 million and no debt.

## Looking Forward

Whilst events like Brexit and the worldwide changing political climate are expressed in a challenge to globalisation, in the end, our enterprise customers will continue to market their goods and services globally (even if they produce more goods in their own countries). Thanks to the internet, the majority of profits for many global businesses come from outside the country where those organisations are headquartered. These enterprises need support to take these products (and associated content) globally faster and while there is a climate of uncertainty, we see no other major impact to our business. We might even experience some benefits as we can own some global execution programmes on behalf of our customers.

For SDL, 2016 was about assessing the business, setting the strategy and stabilising the business. 2017 is the year of execution. With a new go-to-market model in place, we will focus on key accounts and cross-selling while becoming a more agile company through our people, processes and systems. We will also focus on integrating and automating translation capabilities wherever content is managed and complete the convergence of our software stacks in the cloud.

In 2017, we continue to focus on technology innovations like machine learning, and also push the boundaries of how people use technology moving towards technology-enabled services. To ensure visibility and focus on execution and delivery of our strategy, we have deployed cascading goals and balanced scorecards across the organisation. With an aligned plan of execution, revamped processes to improve operational efficiency, and a focus on injecting technology into the organisation, we are working hard to create a more scalable platform. We have the foundations in place to transform our business and, in turn, help our customers go global faster.

**Adolfo Hernandez**
Chief Executive Officer

## SDL Three-Year Plan

### 2016
Wave 1: Assess & Form

- [x] Detailed business review
- [x] Strategy and accountabilities set
- [x] Org model implemented
- [x] Transformation programme developed
- [x] Focus on our customers' needs
- [x] New go-to-market strategy
- [x] SDL brand relaunch
- [x] P&L managed and stabilised
- [x] Divestments under way
- [x] Financial plan developed
- [x] Investments prioritised
- [x] KPIs set

### 2017
Wave 2: Norm & Transform

- [ ] Complete divestments
- [ ] Optimise org and team
- [ ] Monitor new go-to-market strategy
- [ ] Increase quality of revenues
- [ ] Revenue growth from premium verticals (especially Life Science and Marketing)
- [ ] Drive cross-selling
- [ ] Implement MT commercial strategy
- [ ] Transformation programme: implementation & quick wins
- [ ] Technology convergence
- [ ] Maintain cash stewardship
- [ ] Build scalable platform for sustainable revenue and EPS growth

### 2018
Wave 3: Perform

- [ ] Accelerate revenue growth
- [ ] Drive operational leverage
- [ ] Exploit full benefits of transformation programme and investments
- [ ] Extend leadership in MT and premium verticals (Life Science and Marketing)
- [ ] Further premium vertical expansion
- [ ] Continue to review uses of cash, including acquisitions

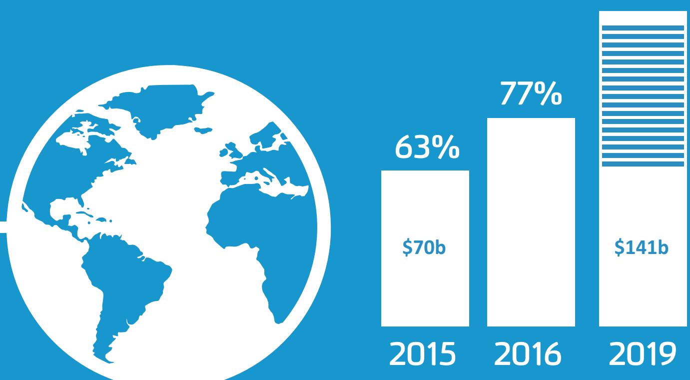
# Asterisk – Not Business Risk

Going global faster. This is the goal of many companies and the potential return on investment is huge. However this goal comes with major risks if you don't address the following trends.

## The cloud's the thing

In the rightscale.com Annual Cloud Computing Trends Survey, 77% of surveyed enterprise users said they were **adopting private clouds** in 2016, which is up from 63% in 2015.

It is no longer a question of whether your company will move data to the cloud, it is a question of when and what mixture of public and private cloud you will use.



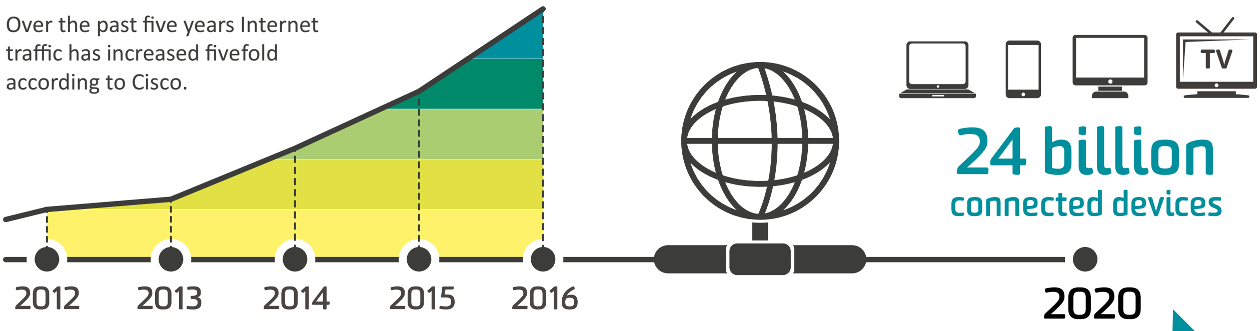

Worldwide spending on public cloud services will grow from nearly $70 billion in 2015 to **more than $141 billion in 2019.**

*(source: Forbes Magazine)*

## More traffic, more opportunities

Global Internet traffic will surpass 1 zettabyte (1 billion terabytes), and will be connected to the internet through different devices.

Over the past five years Internet traffic has increased fivefold according to Cisco.




Business Insider predicts by 2020 there will be 10 billion traditional computing devices *(like computers, smartphones and tablets)* and 24 billion other smart devices connected to the Internet.

## Security and your content

When moving to the cloud, companies face a lack of resources, experience and security. Areas of concern include:

- **How secure** is the transport mechanism for your content?
- **How secure** are the systems that store your content?
- **How secure** is the methodology used for translation of your content?
- **What mechanisms/processes** are in place to ensure your translated content is yours and cannot be used to benefit others?

## Essential technologies that will impact our world:

### Internet of Things:

Network of objects – devices, vehicles, etc. – embedded with sensors, software, network connectivity and compute capability that can collect and exchange data over the Internet.

### 3D Printing:

Additive manufacturing techniques used to create three-dimensional objects based on digital models by layering or “printing” successive layers of materials.

### Artificial Intelligence:

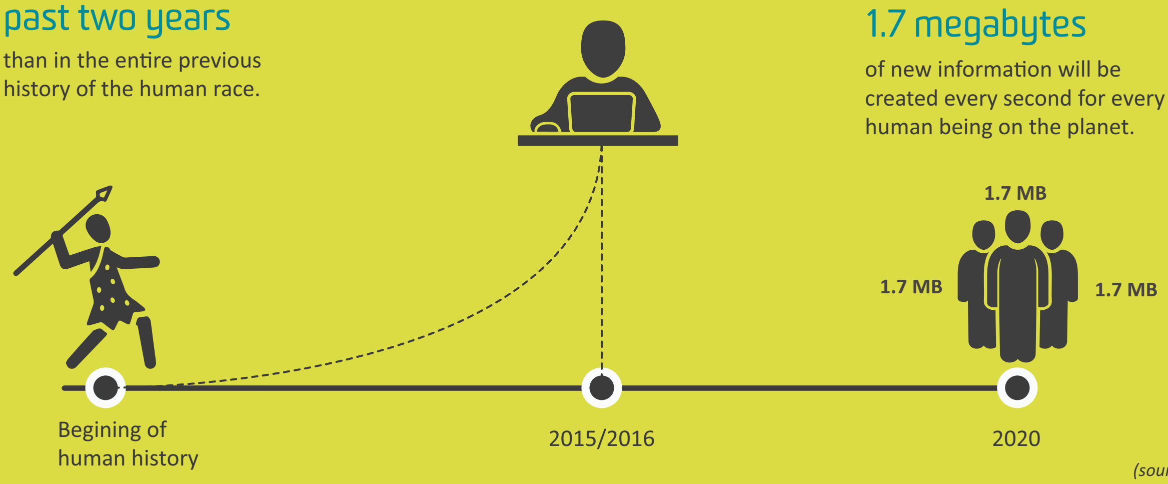
Software algorithms that are capable of performing tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making and language translation.

*(source: DOMO study Data Never Sleeps 4.0)*

## Content is exploding

More data has been created in the **past two years** than in the entire previous history of the human race.

By the year 2020 about **1.7 megabytes** of new information will be created every second for every human being on the planet.



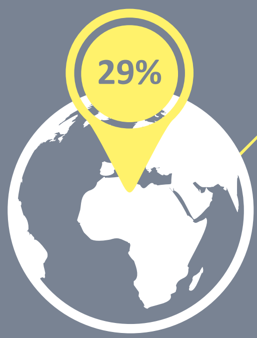

*(source: Forbes.com)*

## Your growth opportunities may not be where you think they are

50%
of the world's population is now connected to the Internet.


90%
of the US population is connected and

74%
of Europe's population have internet access.




### Areas of growth:

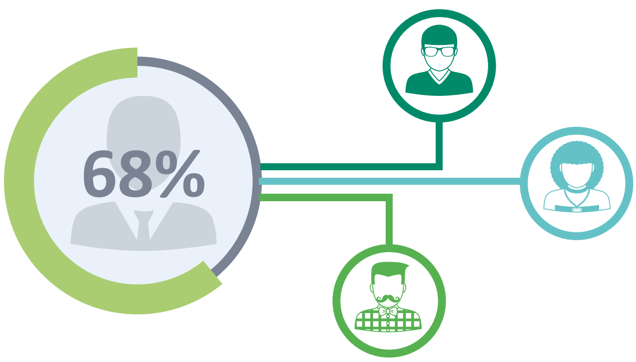
Africa where only 29%
of the population is connected

and Asia where 46%
of the population is connected.


*(source: www.internetworldstats.com)*

## People want their content personal and relevant

Of the companies surveyed for the Forrester Report "Digital Experience Technology and Delivery Priorities, 2016", 68% of respondents stated their highest priority for their web and mobile initiative was
delivering personalised experiences.

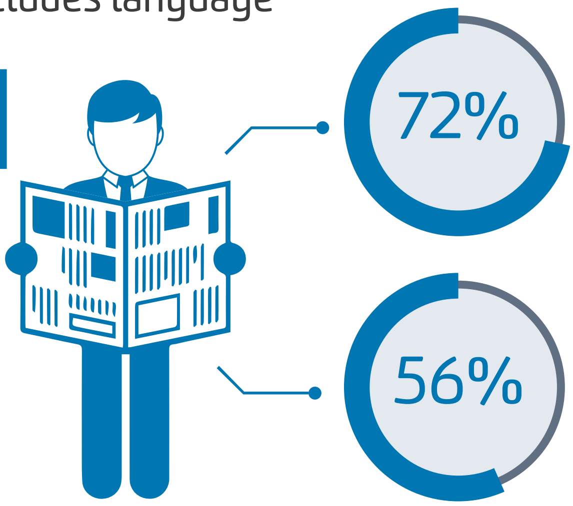



Nearly three-quarters of online customers get frustrated with web sites where content appears that has nothing to do with their interests.

*(source: CMO)*

## Personalisation includes language

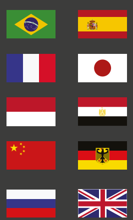
Most people prefer reading in their own language.



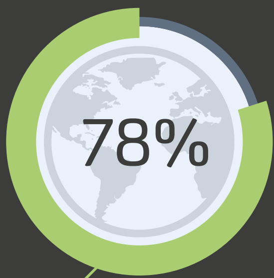

...of people surveyed by Common Sense Advisory said they are more likely to buy a product with information in their own language.

...said the ability to obtain information in their native language is more important than price.

## Choosing the right languages is not as easy as you might think



The top 10 languages used on the web will reach 78% of the world's Internet users.

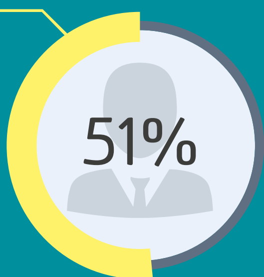



One would expect the current language specific content to have similar proportions to the number of Internet users for that language but that is not the case. For example the populations of English, Chinese and Spanish speakers represents 54.8% of the Internet users of the world.

*(source: Web Technology Surveys)*

## Maintaining your brand

By 2017




51% of companies will have an executive in their organisation responsible for overall content strategy.

This is because 68% of brand managers find it difficult to ensure brand consistency on a global scale. Your content is only as good as its ability to represent your company.

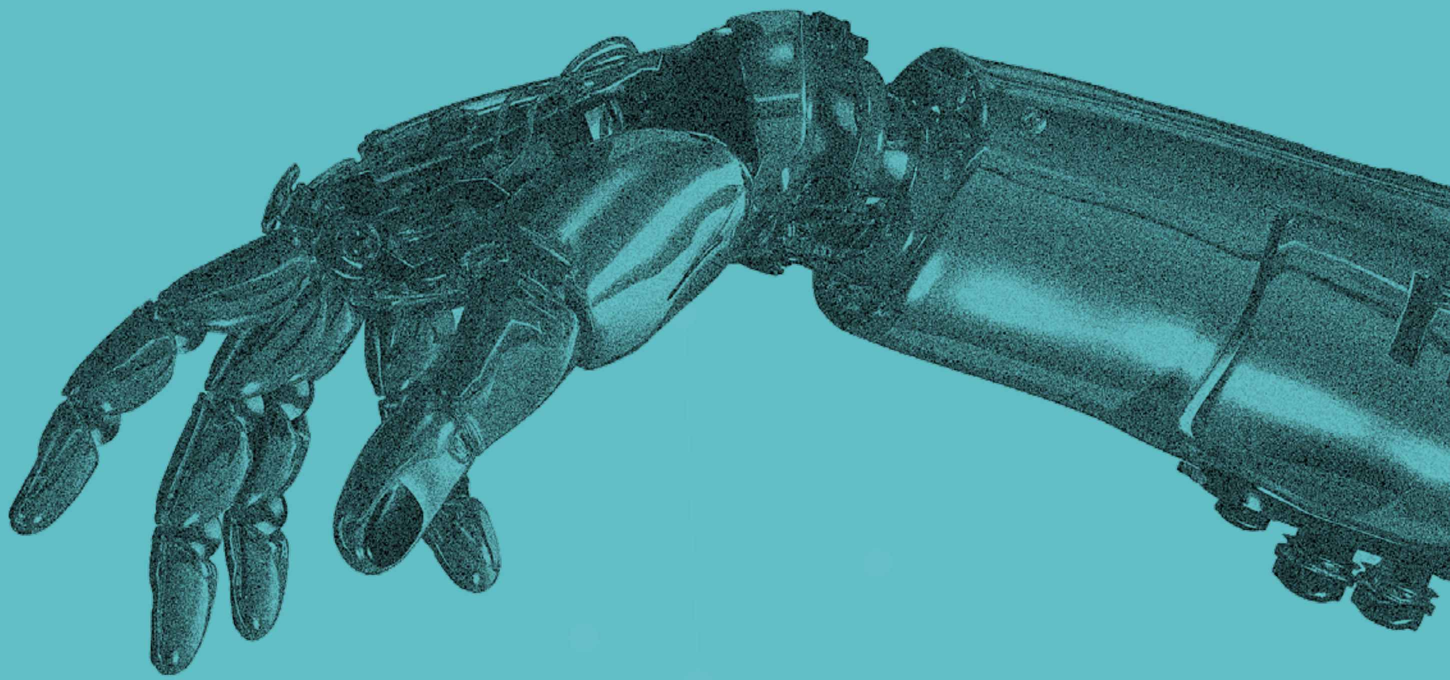
*(source: Curata)*

The Digital World in 2017

# Human

## Human and Digital: Humanising Content in a Digital World

The more plentiful a commodity, the less it's usually worth. But when it comes to content, the opposite seems to be true. Content is the driving force behind the digital tidal wave every business is riding. What makes it so valuable when there's so much of it?



# Digital

The global content explosion dovetails with an overarching consumer demand for increased personalisation – the human touch. In this customer-centric market, the brand differentiation that caters to this desire is the lifeblood of successful enterprises. While products and services can only be personalised to a certain extent, content has the versatility to create a targeted impact on any number of customer segments at a fraction of the cost and effort of traditional marketing methods.

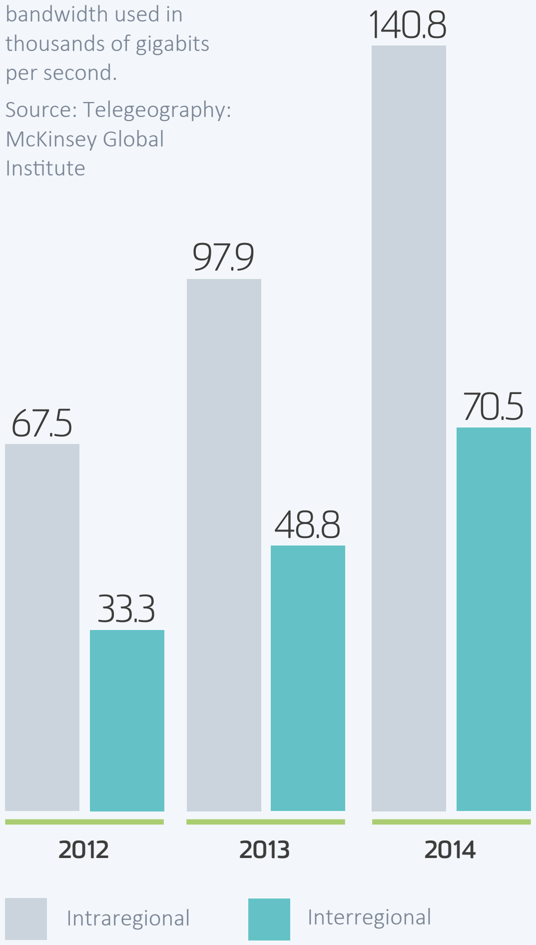
# The Digital World in 2017: Human and Digital

The flow of digital information around the world has more than doubled between 2013 and 2015.

Source: McKinsey Global Institute

Total cross-border bandwidth used in thousands of gigabits per second.

Source: Telegeography: McKinsey Global Institute




There is far more ROI and brand-building potential in content than most businesses are aware. 47% of B2B buyers are willing to consider vendor-related content as trustworthy. Content, counter to typical rules of supply and demand, is therefore a veritable treasure trove for the people and businesses that create it. The time, energy, and money that go into creating quality content does not have to be – and in fact, should never be – a sunk cost.

That's because content can forge human connections on a large-scale and ongoing basis. You can reach 90% of the internet using only 21 languages, but the bulk of companies only reach a handful of these markets. For companies already using content marketing tactics, this is a major opportunity. Going global doesn't present the same daunting challenge it did a decade ago. As more businesses expand across the world, the expectation of quality content available at all times in the customer's language increases.

This absolute accessibility is the game changer for businesses, which matters when globalisation is about more than just finance, goods and services but about cross-border data. Even with state-driven efforts by some countries to control access to information, by the end of 2016, it is estimated that cross-border data increased 20 times more than it did in 2008. Add in the dimension of Big Data – an industry expected to hit $102B by 2019 – and it's clear that brands and customers want to know and share everything with one another. Combined with emerging technologies like 3-D printing, it means that goods can be produced locally by sending data directly to the consumer, without ever having to touch a shipping container. In a borderless digital world, protectionism will place an even higher demand for content and digital experiences as the only way to foster customer relationships and demand and preserve global revenue streams.

Content, as plentiful as it is, serves companies by facilitating a personal relationship with consumers. But like raw diamonds, content requires extensive and expert handling to derive the full value. Unlike a physical commodity, content is boundless in terms of location, language, time and use cases. We are only beginning to scratch the surface of what's possible when we put content to intelligent, and authentically human, use.

# Putting the Customer First

## Customer Story – China Airlines

China Airlines is Taiwan's flagship airline. It is one of the top ten airlines in the world, with routes to 143 destinations in 29 countries.

"Putting the customer first" in China Airline's digital experience meant understanding where the traveller was, delivering what they needed across any channel they chose, all while keeping them connected to their social networks.

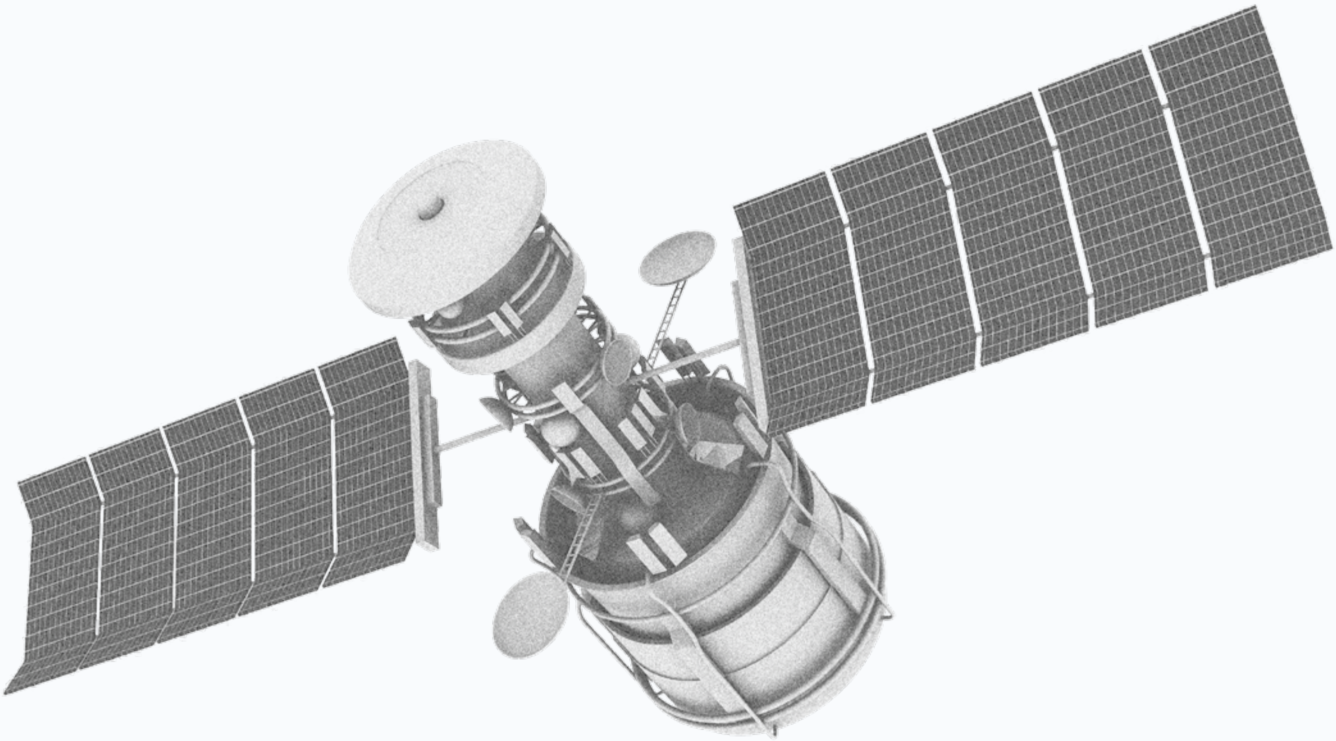
Until recently, China Airline's websites were comprised of numerous agency-driven websites, which were run independently, making it impossible for the airline to share content or maintain brand consistency. With the help of SDL, China Airlines launched its new US website in just 16 weeks. The website now displays content tailored to the traveller's location, and the destination a visitor searches for. The hero banner uses personalisation features to improve visitor experience while its personalised interface provides an optimal experience across PC, mobile and tablet devices and connects to social media (Facebook, Weibo, WeChat, YouTube and Instagram).

Delivering a personal experience wherever their customer is around the world has led to significant payoffs for China Airlines: "It took just 16 weeks to launch the US website. Following its launch, the amount of traffic doubled, and conversion rates increased by 90%." Jenny Tsao, VP of Passenger Marketing.

"It took just 16 weeks to launch the US website. Following its launch, the amount of traffic doubled, and conversion rates increased by 90%."

Jenny Tsao
VP of Passenger Marketing
China Airlines

www.china-airlines.com



The Digital World in 2017

# Global

## Global and Local: Scaling Without Losing the Local Advantage

This global marketplace is fast-paced, highly demanding and always on. Speed of communication and constant connectedness can work against companies just as easily.


# Local

Customers around the world are online every minute of every day, searching for relevant content, information and answers to their questions. The question is: who will reach them first?

# The Digital World in 2017: Global and Local

> “By investing in a global strategy up front, companies can decide for themselves how best to leverage the changing commercial landscape.”

If business competition is a race to achieve face-time with customers, then both speed and strategy are needed. Companies must provide consistency, both in terms of brand and customer experience. This requires centralised and localised content that can be delivered in any format across any channel.

What happens when a company needs to launch simultaneous global campaigns? Before, it was an unpredictable chain reaction of manual communication and decentralised translations. But when content is properly managed, it can easily be disseminated, accessed, translated and amplified.

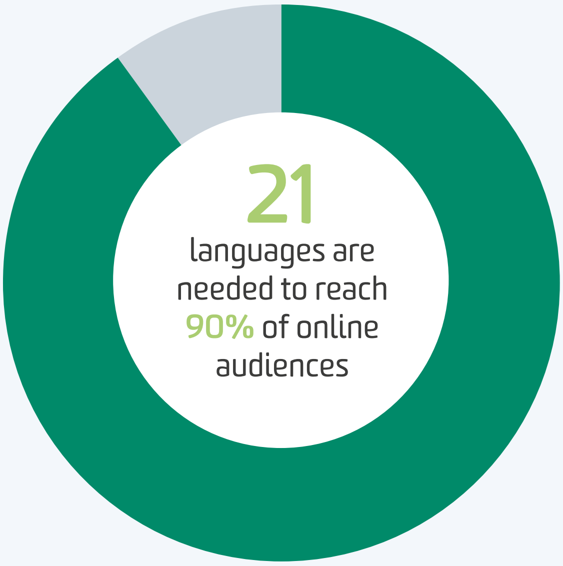
By investing in a global strategy up front, companies can decide how best to leverage the changing commercial landscape. Whilst speed, efficiency, and consistency are key benefits, the winning formula always comes down to what serves your customers best. A global strategy takes this into account, prioritising local relevance as much as scale.

In this race to global customers, the first to get there also has to be the most relevant. Anything less than relevant content is, in effect, invisible to the market segment you serve.

**How many languages does it take to reach 90% of online audiences?**

1. English
2. Japanese
3. German
4. Spanish
5. French
6. Simplified Chinese
7. Italian
8. Portuguese
9. Dutch
10. Korean
11. Arabic
12. Russian
13. Swedish
14. Traditional Chinese
15. Norwegian
16. Polish
17. Turkish
18. Danish
19. Finnish
20. Persian
21. Hebrew

Source: ROI Lifts the Long Tail of Languages in 2012, Common Sense Advisory, 26 June, 2012



# Deliver a Local Experience Around the World

**Customer Story – Huawei**

Huawei is a leading provider of global information and communication technology solutions. Operating in 170 countries, its solutions reach over a third of the world's population.

Huawei needed to create content and convey messages that resonated across languages and cultures. Delivering digital marketing experiences on a global scale, maintaining brand consistency, whilst still delivering regionally nuanced understanding is complex and requires in-country knowledge to be successful. Huawei leveraged SDL's marketing services located in 37 countries, to deliver a local experience around the world.

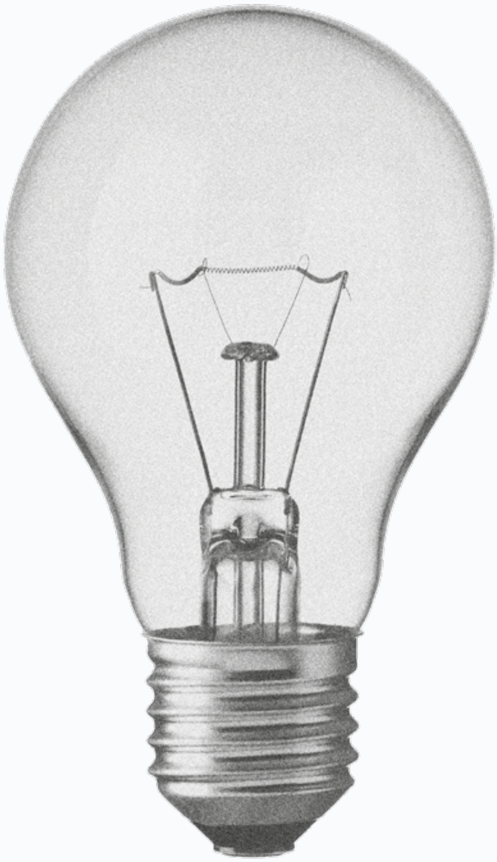
"SDL leveraged its superior local human resources to provide us with services to operate our website and optimise content for 14 countries," says Qian Jinsong, senior manager, Huawei EBG Sales and Marketing. "They've become part of Huawei's globalised marketing strategy. The solution has significantly increased responsiveness to the needs of frontline sales and marketing managers. We've also seen this solution foster an increase in traffic and conversion rates in all markets."

In less than one year, the number of visits, retention time and conversion rate for the Huawei Enterprise global website increased by more than 10 percent, and in some countries by as much as 20 percent, whilst the Huawei brand was unified globally.

"SDL leveraged its superior local human resources to provide us with services to operate our website and optimise content for 14 countries."

Qian Jinsong
Senior Manager
Huawei EBG Sales and Marketing

www.huawei.com



## The Digital World in 2017

# Clear

### Clear and Complex: Solving for Complex Content Challenges

In today's world, content is part of the customer journey, driving consumers from awareness to advocacy. Global brands no longer have the capacity to hand-hold customers through each step.

# Complex

Scale has required content to step in and take over care and tending to global customers. When done well, content is a potent force that propels customers along their journey. When done without consideration to understanding, content is no more than wasted effort and can actually hurt the brand.

# The Digital World in 2017: Clear and Complex

> "Understanding each type of content and its unique needs sets brands up for a clearer, more straightforward, and ultimately more strategic approach."

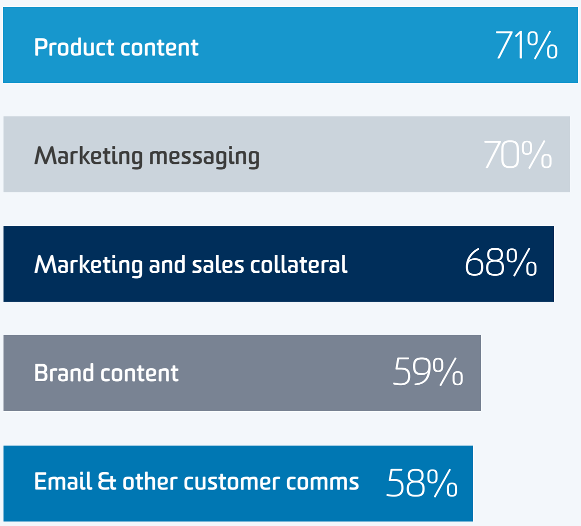
This is because each movement along this journey is an opportunity for the customer to continue on, or to fall off. Businesses are at their most vulnerable when bridging these gaps, which is why creating strong, understandable content is so important.

The value of content increases the further it reaches, but only if it's relevant to end users. This is why translation is so vital – it's a way of deriving the greatest benefit out of each piece of content. Complex as it may seem to accomplish this at scale, machine translation and natural language processing, though not perfected yet, are fast becoming a practical way to transform large volumes of text quickly. By combining Language Technologies with a centralised infrastructure and team, businesses can ensure that their efforts to keep customers moving closer to purchase no matter where they are in the world.

Adding to the complexity is the growing trend of serving consumers content before they request it. From weather forecasts to driving directions, technology is poised to anticipate a significant portion of consumer behaviour. What this means for content is that "instant" won't always be good enough. Relevance trumps speed when so much content is available. As such, machine learning and translation are expected to grow rapidly in the coming years as the demand for instantaneous, high-quality content grows.

With the potential to create relevant, personalised experiences for customers anywhere in the world, the question becomes: where will enterprises prefer to invest – in creating more content, or in maximising the worth of content they've already produced? With the thousands of ads and volumes of information customers process each day, personalised content seems to be the only logical choice for cutting through the noise. Until companies can guarantee that what they produce will be read, pushing more content to the world will not likely produce meaningful results.

## What Types of Content Does Your Organisation Currently Localise?




**Localised Content is Predominantly Marketing and Product Focused**

Base: 151 managers responsible for global digital experiences in US enterprises.

Source: A commissioned study conducted by Forrester Consulting on behalf of SDL, August 2016

# A Global Approach to a Personalised Experience

**Customer Story – NetApp**

Throughout the world, leading organisations rely on NetApp for software, systems and services to manage and store their mission-critical data and applications. With offices in over 150 locations worldwide, and in excess of 12,000 employees, NetApp is a truly global organisation.

The nature of NetApp's business demands a global approach to content creation. But the speed of its growth and the increasing frequency of product releases meant that its established methods for creating content and localising were no longer scalable. According to Anna Schlegel, Senior Director Globalisation and Information Engineering:

"There is so much information in the world that the only way to capture people's attention is to make the information that's most relevant to them easily accessible. What's important is that you have the ability to pick and choose what content gets served to a person when they visit your brand whatever device they're on."

With the help of SDL's solutions, NetApp adopted a new, integrated approach to content creation and localisation to send content globally as quickly as possible, whilst giving customers a personalised experience.

“There is so much information in the world that the only way to capture people's attention is to make the information that's most relevant to them easily accessible.”

Anna Schlegel
Senior Director Globalisation and Information Engineering
NetApp

NetApp™

www.netapp.com

# 25 Years of SDL*

**1992**

Company founded by Mark and Cristina Lancaster in Maidenhead, UK

SDL INTERNATIONAL

**1994**

Trados workbench introduced to the translation industry

**1999**

SDL shares sold on the London Stock Exchange

**2000**

Launched cloud-based translation management system

A 言語

**41 patents**

and over **200+ peer-reviewed scientific publications** through our 10+years of research in machine learning

# SDL powers...

...the **top 14** automotive companies

....the **top 11** consumer electronics companies

**2003**
Implemented machine translation + human post editing

**2005**
Pioneered statistical machine translation technology

**2007**
Launched web content management solution

**2008**
Launched DITA-based technical documentation management solution

**20 billion words** machine translated per month

**100 million words** professionally translated each month

**1100** in-country, in-house linguists

**8500+** freelance translators

**400+** software testers

6 of the top 7 banking companies

... the top 3 life sciences companies

...the top 12 IT/software companies

27 of the top 37 eCommerce/retail companies

**2009**
Expanded SDL Trados Studio with integrated terminology and collaboration

**2012**
Expanded SDL Knowledge Center with collaboration and dynamic delivery

**2013**
Nominated for European Inventor Award for pioneering Machine Translation research

**2014**
Launched Language Cloud

**31%** savings in content development costs

31%

**93%** Services RRR

**350** universities use SDL Technology to prepare students for future careers

# Financial Highlights (2016 figures)

| | | | |
|---|---|---|---|
| Linguistic Utilisation | 49% | Wins in Life Sciences | 8 of 9 global RFPs |
| Technology ARR | £62m | MT Bookings | won 38 accounts |
| Services RRR | 93% | Premium Revenue | £9.4m |

**2015**

Launched Adaptive MT which integrates artificial intelligence with machine translation

**2016**

Launched Content Cloud for unified content and translation management in the cloud

**today**

Delivers Software and Services for Human Understanding for 78 of the top 100 global brands

**£265 million** in annual revenues with 10% annual growth rate

# Relaunching SDL

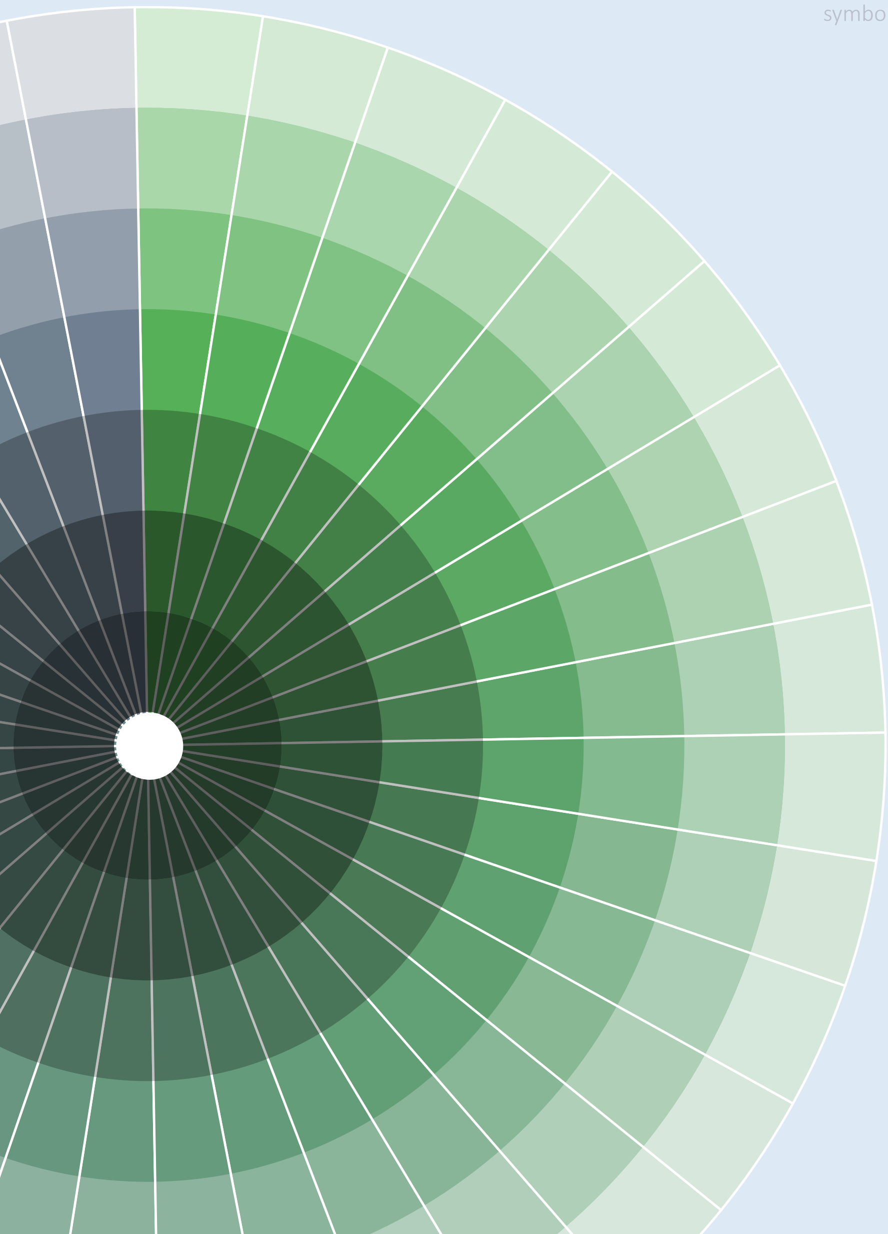
2016 was our year to assess and form our strategy to build our capacity for growth. We are now well-poised for transformation having divested some of our non-core products and reinvested our resources into several key strategic areas. To this end, we overhauled our story, our messaging and our logo, and relaunched the new brand in the Autumn of 2016 to the world.




The angle of the asterisk balances the word mark and symbol. This angle must always be 14°.

Pantone 7544
RGB (93, 110, 127)
C27, M13, Y0, K50
#5d6e7f

Pantone 7481
RGB (37, 189, 89)
C68, M0, Y85, K0
#25BD59



The SDL brand continues to acknowledge the legacy and equity we've built with our green. We have paired it with a slate blue, furthering the strength of the word mark/asterisk union. Blue and green are particularly well-suited as tonal counterparts.

## Our Vision

Every person, regardless of the language they speak, can participate in the global and local conversation. We are the partner for companies with global ambitions, and we will push the boundaries of enterprise translation and content management, allowing businesses to maintain richer conversations, develop deeper customer loyalty and foster more nuanced understanding in their particular marketplace.

## Our Mission

We commit to making our vision a reality. Online and digital are fast becoming the main spheres for human connection, and we believe in the importance of understanding through better communication, not just information. We are on a mission to enable organisations to establish a personal connection with customers worldwide. We seek to eliminate language as a barrier to communication and help the world connect. We will deliver the solutions and technologies that allow companies to understand customers. Customers to understand brands. And people to understand each other.

## Our Purpose

At the heart of our brand is our purpose. It's why SDL exists. We help the world communicate with each other and understand how to overcome the challenges of going global. We strive to capture all the levels of meaning and multiply it across all languages, cultures and mediums, structuring and delivering the entire content life cycle that allow our clients to navigate even extreme complexity.

To get to the level of sophistication that now exists in today's digital experiences required a pantheon of visionary technology companies and their innovations: Intel's microprocessor, Cisco's network, Amazon's ecommerce, and even Facebook's digital friendships. The next advancement requires connecting all of the world's information to people, and that this is vital for modern business. This is why SDL is proud to honour its legacy and excited to embrace our future.

"We are on a mission to enable organisations to establish a personal connection with customers worldwide. We seek to eliminate language as a barrier to communication and help the world connect."

**Peggy Chen, Chief Marketing Officer**

MIT master's graduate and former Oracle Product Marketing Director, Peggy strives to combine the art and science of marketing SDL's products and services for its global customer base. She thrives on solving the complexity of creating a strategy that impacts immediate effectiveness and long-term goals for SDL.

# Ten Principles

To align our business and execute on our vision and mission, we designed 10 principles.

**1.** **Content and language:** We take accountability for our customers' global content from creation, generation, localisation, integration and delivery, in the cloud, on premise, on time.

**2.** **Best people:** We will deliver value to the business and our customers by using innovative and proven approaches for identifying and hiring the best talent in the market and inspiring, engaging and enabling everyone at SDL to be their best.

**3.** **Internally efficient:** We will be as efficient as possible through automation to deliver faster, at higher quality, more predictably and at better cost.

**4.** **Leveraging technology:** We will use our extensive tooling – machine translation, predictive analytics, translation productivity, suggestion engine – throughout our software and services to deliver value to the customer quicker and more efficiently.

**5.** **Continuous innovation:** We will continue to innovate and bring new techniques, tools, ideas and business models to bear on our clients' problems.

6. **Security:** We take confidentiality seriously and ensure security through all content management and translation solutions.

7. **Specialisation:** We will deliver high-value premium solutions, particularly for premium industry markets.

8. **Dynamic Ecosystem:** We will deliver best-of-breed solutions that interoperate with the best ecosystems built by our technology partners.

9. **Automated software tools:** We will build software tools to automate the global content creation process and simplify this for our clients.

10. **Customer satisfaction:** We will deliver the best customer experience and satisfaction with fruitful commercial benefits for both of us.

**Azad Ootam, Chief Transformation Officer**

Azad's career has been committed to transforming organisations with a straightforward and respectful approach. He values his ability to impact the whole of SDL by aligning growth potential with organisational transformation.

# What We Do

At SDL, we focus on solving the complex business problem of creating and managing global content with our unique combination of software and services. We have an impressive set of language software tools like our machine translation technology, SDL Trados Studio (the most widely used translation software) and sophisticated translation management technology.

But we go further than simply tackling the translation part of the equation. We ensure that any content can be easily and tightly integrated with the translation process. We also provide solutions that help our customers create and manage web, multimedia and technical content. Lastly, SDL manages the delivery and experience of the resulting global content across all channels.

> "All SDL translators must meet the strict requirements necessary for SDL to continue to be an ISO 17100 certified company."

## Language Services and Consulting

25 years ago, SDL began as a language services and consulting company. As a Language Service Provider, we provide high quality, consistent translations to the biggest global brands.

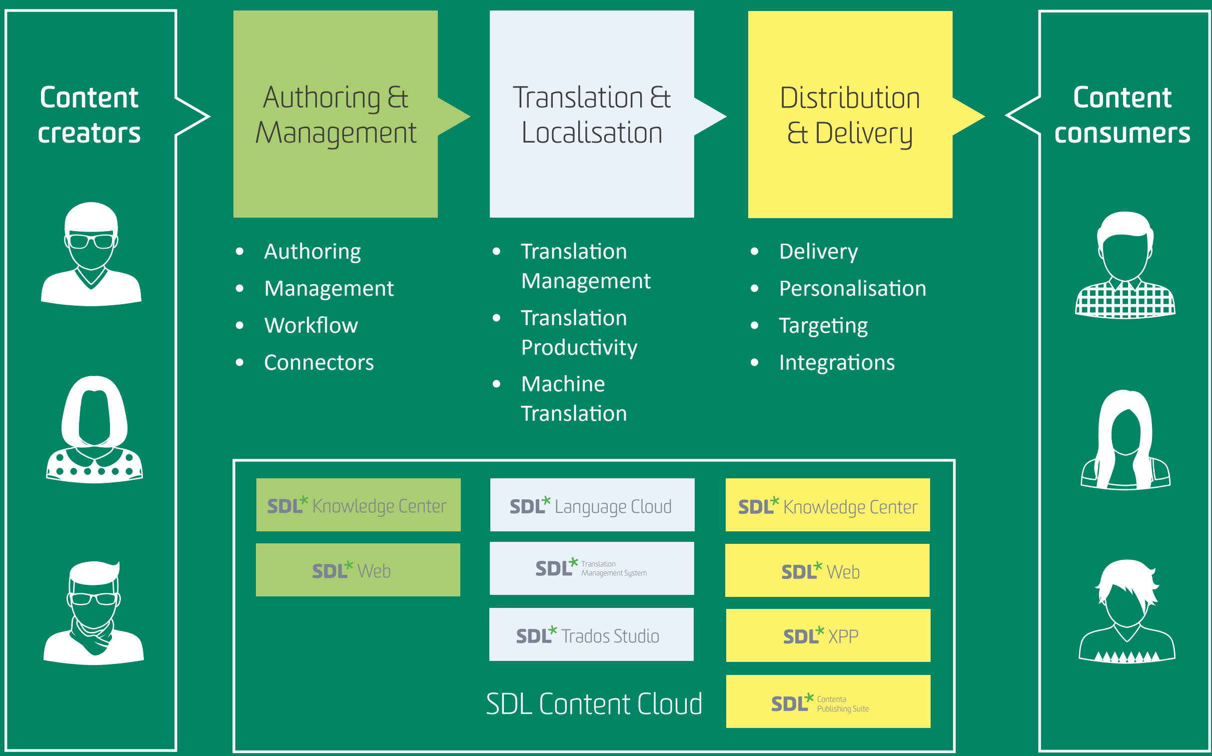
Translation is a requirement for global audiences, but it is also about more than just converting text into another language. Professional translation contributes essential linguistic, cultural and subject matter expertise to the transformation of content, and it leads to a better-finished product. All SDL translators must meet the strict requirements necessary for SDL to continue to be an ISO-17100 certified company. We provide a wide range of specific services including:

- Translation
- Post-editing
- Transcreation
- Interpretation
- Document localisation
- Software localisation
- Website localisation
- Multimedia localisation
- Product testing

**Massimo Ghislandi, EVP Translation Productivity**

Multilingual Massimo thrives on working with other cultures and spends much of his time on the ground in SDL's global offices in which its Translation Productivity teams are based. Massimo spent a decade in various marketing positions at Wandel Goltermann, ITT Cannon and Avery Dennison before joining SDL in 2006.

## Content and Translation Technology




## Language is the Core of Everything We Do

To deliver a truly personal digital experience to a customer, it is vital to speak the customer's language. Brands must also deliver relevant content that matters to the individual. We offer content management solutions that help brands navigate the complexity of providing customers with personal content to across languages, channels and devices. Finally, we support our customers' continuous needs with connectors, secure solutions, industry and local expertise, as well as partners and professional services.

SDL Localisation Process Consulting promises reliable results. Through our 25 years providing translation services, SDL has developed localisation best practices applicable to a variety of industries and company cultures. SDL helps companies plan and execute, intelligent localisation strategies, avoiding potential problems. Our consulting services spans a wide range of disciplines, including:

- Global content operations
- Web content management
- Knowledge delivery management
- Translation management
- Terminology management
- Best practices for in-country review of content
- Planning for the best results from machine translation
- Authoring training for documentation as well as multimedia
- Multilingual search engine optimisation
- Quality benchmarking and key performance indicators for translation
- Internationalisation to prepare content for translation
- Structured content migration
- Global content and marketing solutions

## Translation Productivity

The professional translation community has relied on our technology for decades to assist them in their work and increase their productivity. Quality and efficiency are both key concerns for translators. Our translation productivity tools ensure the right balance between these seemingly conflicting requirements. In addition, integrated machine translation and terminology management are now a mainstream requirements for translator efficiency.

With our most recent release of SDL Trados Studio, we transformed our translation memory capabilities by including expert machine translation capabilities through UpLIFT and added additional efficiencies with AdaptiveMT.

The entire suite of translation productivity products will continue to assist freelance translators, language service providers and localisation departments.

SDL provides tools optimised for different translation requirements such as documentation, websites and software.

- SDL Trados Studio
- SDL Trados GroupShare
- SDL MultiTerm
- SDL Passolo

**Silke Zschweigert, Chief Delivery Officer**

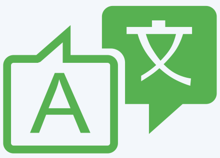
With a love of languages from an early age, multilingual Silke’s role is about ensuring SDL has the best processes and systems in place. Her organisation is the largest in the business and is comprised of our in-house linguists, localization process consultants, project managers and other producers that our customers work with.

We have the talent and data to commercialise MT

45 Patents
200+ Scientific Publications

Pioneers of Statistical MT Since 2005

Leading Research on Neural MT




Translating 20+ Billion Words Per Month

Human + Machine Better Together

## Translation Management

Companies with large, complicated translation requirements need technology to improve the ongoing localisation process. They turn to SDL for the translation management software that streamlines the entire process and delivers quality translations reliably.

SDL WorldServer solutions are for companies that require highly customised solutions that integrates with other content repositories within a customer's content ecosystem. For companies who just need workflow management for their translations, we provide SDL Translation Management system (TMS).

Both products leverage previously translated content, allowing our customers to effectively manage project costs. No deadlines are missed since these tools can apply automation and customisable workflows to translation projects and communication between project managers, translators, Language Service Providers (LSP's) and reviewers. In addition, our customers can track quality metrics and real performance data to improve budgeting and planning.

Our translation management software grows alongside global expansion. Companies can increase the number of supported languages, incorporate machine translation, add new translation vendors and integrate with key business systems, all within the same platform.

## Machine Translation

SDL leads the industry with more than a decade of research and development in machine translation (MT). SDL pioneered the use of statistical engines, rather than rules-based engines, for machine translation in 2005.

**A talented research team and a unique data set**

SDL researchers have been nominated by the European Patent office for the prestigious European Inventor Award for their their revolutionary approach to machine translation. With more than 200 scientific papers and 40 patents, we are now heavily engaged in Neural MT research and have built an infrastructure that translates more than 20 billion words a month.

In addition, we have built a unique data set that has learned to translate using industry specific terminology. Our Travel MT engine continuously improves the quality of its output because we have continuously trained the engine. In addition – as with many AI applications – we combine the power of machines and human finesse. And our machine translation technology is integrated with our translation productivity tools for a complete solution. For example, by including our AdaptiveMT feature within SDL Trados Studio, we improve baseline translation engines at individual level by instantly personalising the results based on the human translator changes.

## Web Content Management

Every business needs a website. But global businesses need to manage and distribute content on digital experiences that support multiple channels, formats and languages. SDL Web (formerly known as SDL Tridion) is designed for organisations that recognise the importance of global digital content but struggle to deal with its complexity.

It combines web content management with digital media management, targeting, testing, personalisation and localisation to enable businesses to deliver high-impact digital experiences. SDL Web makes it possible for businesses to fulfill the demands placed on their multi-brand, multilingual content in a way that really engages audiences while providing marketing teams with the tools they need to get the job done.

In Forrester Research's latest Web Content Management systems evaluation, ***The Forrester Wave™: Web Content Management Systems, Q1 2017***, they write that, "SDL Web 8 is ideally suited for large companies that need strong multisite and multilanguage tools to support global operations."

These benefits are powered by SDL's unique BluePrinting® technology, which provides a way to manage, reuse and synchronise content, multimedia files, functionality and brand elements across websites easily – component by component, versus the entire page and site at once.

SDL Web also helps deliver relevant online experiences by understanding who the audience is. It leverages customer profiles and delivers richly personalised content using real-time, predictive modeling that adapts to visitors' online behaviour.

We know that creating global impact is about being personal. With SDL Web, content translation is built in allowing you to manage, automate and distribute translated content across channels, so your customers have a locally relevant experience.

> "SDL Web is designed for organisations that recognise the importance of global digital content but struggle to deal with its complexity."

## Technical Content Management

Today, customers don't want to download a hard-to-read PDF on their mobile device. They want content in their language, personalised to their specific needs and rendered for the device they are currently using. They might even want to watch a video tutorial instead of reading online help.

Early on, SDL saw the need for a better experience with technical documentation. We addressed this need with SDL Knowledge Center (formerly known as SDL LiveContent), an enterprise solution for creating, managing and delivering high-quality structured content for technical documentation and self-service support.

This award-winning product has been highlighted by KMWorld on multiple occasions for its impact on knowledge management and is the most popular content management system for technical documentation as ranked in the Technical Communication Benchmarking Survey by The Content Wrangler in both 2012 and 2016.

**Peter-Paul Houtman, EVP Technology and Product Management**
Peter-Paul directs SDL's product portfolio using his background as a software engineer and business consultant to ensure that all technology and product management operations are aligned with the commercial strategy. He sees SDL's use of technology to address the nuance of language as its key differentiator.

> “Security is crucial for our customers’ businesses and we now provide an unprecedented level of security and control for the industries that need the highest level of protection.”

SDL Knowledge Center provides product release tracking, XML authoring, automated publishing and support for content variations. Writers and subject matter experts can work together in an easy-to-use browser-based content review and editing environment. Integration with translation management systems provides single-click translation processes and automated status updates during the translation process.

## Multimedia Management

Video and rich media are now an integral part of today’s online experience. Our approach to digital media management is a centralised tool with which companies can store, manage, optimise, analyse and deliver media assets across all distribution channels.

SDL Media Manager provides automatic device detection alongside multimedia transcoding to deliver content in the best possible format. Additionally, video and image overlays with links, forms, and download buttons convert multimedia into interactive and engaging experiences. Finally, our approach to multimedia management obviously focuses on localisation. We reduce the cost of post-production cycles of multilingual multimedia with integrated access to machine translation and localised backslides, overlays, subtitles and voice overs from a single source video file.

## Experience Management

Experience management is an emerging response to the challenge of delivering relevant content. Not only do companies need to close the divide between technical and marketing content, so that relevant technical specs can be integrated into marketing web experiences, they must also deliver better support in the post-sale experience to meet increasing customer expectations. Companies may also want to take advantage of upsell and cross-sell opportunities based on the customer journey.

We focus not only on managing the delivery of relevant content, but also on blending it with content from other repositories to create a unified experience. This is why we are unifying content delivery across our content management systems. This change allows us to marry marketing and technical content so SDL customers can use a single delivery stack regardless of the unique management requirements for different types of content.

Gone are the days of sub-par support experiences, static PDFs, and inadequate knowledge base articles. This unified delivery layer is built on top of our latest SDL Web technology, which has an extremely robust and mature experience management and content delivery stack. Now we are extending this to SDL Knowledge Center.

## Security

We worked closely with many highly regulated industries over many years and saw strict security requirements continue to evolve. SDL is now redefining security standards within the translation industry with the launch of SDL Secure Translation Solution. It provides companies with the ability to control how, and by whom, their data is accessible from either on-premise technology or using SDL Language Cloud.

SDL Secure Translation provides our customers with full traceability and access control with secure end-to-end translations. This cost-effective, easily deployable and scalable solution combines high-quality translation output and allows our customers to meet regulatory requirements with full compliance.

Sensitive documents are sent to SDL's secure environment for translation, which can only be accessed by client-defined translators.

Translators access the data using an on-premise technology solution or SDL Language Delivery Service. Within the secure environment, translation memory, terminology management, translation tools and machine translation are all available. Data cannot be stored locally, copied and pasted, printed or added to any unauthorised translation memory.

The latest innovation allows our customers to deliver highly sensitive information to SDL’s secure environment virtually and provides the added safeguard of industry-leading standards. We know that security is crucial for our customers’ businesses and we now provide an unprecedented level of security and control for the industries that need the highest level of protection. SDL is proud to provide a solution in this area.

## Building Customers for Life

SDL embraces a holistic attitude of creating value for our customers as their needs evolve. It is our commitment to innovation and to understanding the complexity of global content requirements that allows us to anticipate a customer's needs before they do. This allows us to be well-positioned to help our customers deliver deeper understanding and connection to their audience.

The biggest value we can create for our customers is in connecting disparate content systems and filling the gaps in their content lifecycle. But understanding the gaps in a complex content ecosystem in a large organisation takes time, which is why a meaningful partnership is crucial.

Some of the ways we achieve this include a comprehensive plan of ongoing customer communications and regular touchpoints so that we can quickly respond to our customers' needs. We work cross-functionally to coordinate ongoing communication and to deliver important information to our customers so that they are always up to date. We want to make sure they always have the latest information about technology developments and best practices so that they get the most out of their investment in SDL.

To facilitate a two-way ongoing dialogue with our global customers we provide the SDL Community – which now has more than 12,000 visitors per month – as well as several user groups that cater to various SDL solution areas.

Our goals are to continue to drive customer initiatives across SDL solutions, build value and enable our customers to achieve their business objectives. We are proud of the lasting impact we have had with our customers such as Nielsen and the Government of Greenland.

**Nielsen**

When global performance management company Nielsen was looking for a dynamic business partner to help meet its ambitious global customer experience objectives, it turned to SDL. More than a decade later the partnership is stronger than ever. Nielsen relies on SDL solutions to deliver an effective globalisation strategy that keeps clients around the world coming back. The company has seen both time and cost efficiencies rise year after year.

nielsen

**The Government of Greenland**

Greenland has language challenges unlike any other country in the world. While most its inhabitants speak Greenlandic, many of the country's senior government officials are Danish and are deployed to work on the island for between 6 months and five years. In 2011, the Greenland government purchased a central license for SDL Translation Management System to help localise large volumes of content, consistently and efficiently. The results have been staggering: each translator has almost doubled their average translation output and as a team they translate over 5 million words annually. Additionally, the close collaboration with SDL has been a key factor of the team's success. "The way we work together is why SDL Translation Management is a success for the Greenland Government," according to Kim Christiansen, Project Manager at the Government of Greenland. Another key factor for success has been the ongoing support Kim and the team have received from SDL. Kim explains "It's one of the best support departments I have ever worked with."

NAALAKKERSUISUT
GOVERNMENT OF GREENLAND

**Betsy Fallon, EVP Global Client Services and Professional Services**

In her role overseeing global client services at SDL, Betsy ensures her colleagues are committed to enhancing the customer experience and creating programs and services that drive customer success and satisfaction. Prior to joining SDL Betsy held senior leadership roles in marketing and customer development at Context Media and Idiom Technologies.

# Building Our Capacity for Growth

## Defining the Market for Content and Language

Over the last 25 years, SDL has met the demands for global business with services and technologies that optimise content and language delivery. As content has evolved into a complex ecosystem with diverging quality and volume requirements, SDL has evolved its go-to-market strategy to match.

## Premium Content

Content that influences the purchase cycle is considered premium content, and requires the most domain knowledge to translate. This typically consists of marketing material, developed and designed to influence the buyer. Creating this content is highly labour intensive as are the translation requirements, which must use in-country translators to get the right meaning, nuance and impact. SDL's in-country model delivers this level of premium service to its customers, enabling them to increase their global reach without increasing headcount in each locale.

## Standard Content

Much of the content created in the world does not require the level of personalisation and regional consideration that premium content requires. However, standard content must still be accurate and relevant content, whatever the language.

SDL's technologies and services allow us to scale to a customer's content growth and ensure the right level of accuracy and consistency. From the translators who localise the content using SDL Trados, to the project managers who manage these large and complex global enterprise content strategies through our translation management systems, to the cutting edge machine translation engines we train with terminology specific to our customers' industries... all of our solutions work hand in hand. By combining our technologies with our people, we balance quality and cost with time-to-market and volume.

## User-Generated Content

User-generated content from online reviews to status updates is driving the content explosion we are all seeing. When was the last time you bought something without checking out the user reviews? When was the last time you tried to solve a setup problem with a new product without checking out an online video first?

The new stars of online reviews are the Unboxers – people who broadcast their entire customer experience from unboxing the new product to using it for the first time. Is the grammar perfect? NO. Are the subtitles spelled correctly? NO. Does it influence online purchases? ABSOLUTELY.

This content cannot be ignored and must be translated. Therein lies the SDL advantage. Our technologies continuously learn the customer's language and refines it for future translation projects. In doing so, costs and schedules are reduced while translation quality improves.

## Managing Content

Across all of this content, whether premium, standard, or even user-generated, one constant business challenge remains – the need to manage content effectively. Companies struggle to extract the value out of the content they produce either because they can't deliver it at scale globally or they fail to adequately reach their customers with a relevant and personal message.

At SDL, we have focused our content management technologies on two major bodies of content that we believe have the most global impact and represent the largest volume, namely websites and technical documentation. By delivering sophisticated content management capabilities for these specific areas, we ensure a much deeper integration with translation and contextual delivery for two very important customer touchpoints. This allows us to deliver on the promise of globalisation by maximising content value.

As you can see, the content ecosystem is complex with competing and sometimes conflicting requirements. For some content types, human translation is non-negotiable because quality requirements are high, but it is clear that there are not enough professional linguists to translate the volume that is coming in. Companies must balance the value of the content they produce with the resources they expend to ensure that content value is maximised across global markets. What we provide is a cost effective and scalable process that accelerates the speed by which a customer can go-to-market regardless of the type of content they produce.

## Driving Growth Through Asset Re-Use and Maximisation

Low Content Volume → High Content Volume

| Premium Content | Standard Content | User-Generated Content |
|---|---|---|
| Market size c.£6-7bn | Market size c.£7-8bn | Market size c.£200-300m |
| 1100 linguistic specialists | 10k+ freelancers & our vertically trained MT | Trained customer specific MT engines |
| Human Translation | Machine Translation with Human Post-edit | Machine Translation |
| | | FAQ |
| | | Alerts |
| | Support websites | Notifications |
| | Software user interface | User forums |
| Advertising | Documentation and manuals | SMS |
| Legal and contracts | User guides | User reviews |
| Marketing content | Knowledge base | Email |
| Newsletters | Product desciptions | Wikis |
| HR documents | Help | Blogs |
| Marketing websites | Email support | IM |

Low Content Volume → High Content Volume

# Combining Language and Content

## Customer Story – Akamai

As the global leader in Content Delivery Network services, Akamai makes the Internet fast, reliable and secure for its customers. They revolutionise how businesses optimise the delivery of consumer, enterprise and entertainment experiences for any device, and their web presence is instrumental in demonstrating the value of its services.

Aiming to streamline web marketing across all sites, Akamai turned to SDL. The company selected SDL's web content management and translation management technologies to create an end-to-end content ecosystem. SDL's technology streamlines the processes of creating marketing content, translating it for global audiences and publishing it to the global web properties.

Akamai also named SDL as their preferred translation services provider, gaining access to SDL's expert project management team and network of in-house, in-country translators to drive a high volume of accurate, consistent translations. Additionally, the company leverages SDL's linguistic testing and multimedia subtitling services.

Akamai has future plans to continue improving its digital customer experience and content ecosystem. The company plans to deploy SDL Web's Experience Optimisation capability to deliver personalised experiences relevant to each visitor's context. Akamai also plans to integrate SDL Knowledge Center structured content technology for technical documentation, resulting in an end-to-end, global dynamic content creation and delivery system.

www.akamai.com

## Significant Growth in Addressable Opportunities


## A More Targeted Approach

In 2016, we recognised that our investments in both content and language, though successful in addressing real business needs, did not reach the full potential market.

We embarked on a new approach to positioning our offerings with account-based marketing and selling. This required that we analyse our entire customer base to determine where we found success in the past and where we might find opportunities in the future.

Through a rigorous process, we organised our customer data by vertical and other basic characteristics such as size and global footprint. We examined the products they purchased from us along with the ones they didn't, and determined where we had a right to win based on these past experiences. Once identified, this sweet-spot criteria data was used to create composite company characteristics, per vertical, which we knew could benefit from our offerings.

This formed the basis for the assembly of a more focused target account list, which has allowed marketing and sales to be much more strategic, rather than opportunistic, in our ongoing sales tactics. This means we can maximise our revenue opportunities merely by expanding our existing footprint across the customer base and existing vertical presence.

**Allan Hall, Chief Revenue Officer**

From his background as an engineer, Allan brings analytical thinking and a pragmatic approach to his role of CRO. He believes that to be effective, sales requires deep technical knowledge and a thorough understanding of what a customer really wants to achieve.

# Building Our Capacity for Growth

## Expanding Our Footprint

**Industry Prioritisation**

With fresh target accounts that matched sweet-spot criteria, SDL can further focus on vertical-specific selling. This data-driven approach enables our organisation to prioritise the verticals where we are most successful to maximise our market penetration.

Through analysis, we know which value propositions resonate best per vertical and can reorient our selling approach to take this into account. Additionally, the organisation has been organised cross-functionally around key industries, including financial services, high tech, manufacturing, automotive, retail & CPG, travel & leisure, life sciences, aerospace & defense, and government to ensure maximum specialisation without negatively impacting our base offerings.

**Cross-sell and Upsell**

In the past, SDL typically won a customer with either content or language needs. But we can already see how the two are not separate issues, but are deeply interconnected. This creates a natural opportunity to cross-sell into our existing install base. By cross-selling additional products, services and solutions into accounts that need to distribute content efficiently, we create tremendous market potential whilst minimising risk. It results in higher profits and a faster sales cycle than selling into new customers. In addition, by delivering more of our capabilities to the customer, we increase our value as a partner.

We have analysed our accounts and have identified target customers that do not currently have our full suite of solutions that could benefit from our complete offering. Some examples of where we have been successful in our cross-selling include:

## Growth and expansion in existing accounts

**China Airlines**

SDL Web, SDL Web Digital Experience Accelerator and SDL Language Services

**Lindex**

SDL Web, SDL Translation Management System and SDL Language Services

**Omron**

SDL Web, SDL Language Services and SDL Trados Studio

**NetApp**

SDL Machine Translation, SDL Translation Management System, SDL MultiTerm, SDL BeGlobal and SDL Knowledge Center

**Akamai**

SDL Web, SDL Knowledge Center, SDL WorldServer and SDL Language Services

**clarion**

SDL Web, SDL WorldServer and Language Services

**SKF**

SDL Web and SDL Translation Management System

**Linde**

SDL Translation Management System, SDL Knowledge Center and SDL Trados Studio

**More Holistic Content and Language Solutions**

To make it even easier for our customers to achieve their global ambitions, we are also integrating our content and language solutions tightly together.

Many global organisations work with distributed content teams who author, manage and translate content. This frequently results in duplicated efforts and lack of consistency in the quality of content that is delivered to market. By combining content management environments and translations in the cloud, we address the business priorities of content creators who want to achieve a faster time to market, and of IT who wants to deliver secure, scalable and stable solutions.

We know that content and language lie at the heart of the customer experience, but for most organisations this process is often siloed, inefficient and disjointed. SDL now offers two cloud-based solutions for managing the complete global content lifecycle.

These solutions bring together content management and language management in the cloud and streamline the content creation-to-delivery lifecycle. SDL offers combined solutions for web content management and technical content management.

**SDL Global Digital Experience Solution combines web content management and translation management:**

- Content marketers gain control over content distributed across channels and devices
- Translation processes from creation to review to delivery are managed and automated
- Translations are contextual
- Delivered content can be personalised and targeted
- SDL Web BluePrinting technology synchronises global and local content

**SDL Global Knowledge Delivery Solution combines structured technical content management and translation management:**

- Simplified document information typing architecture (DITA) content authoring in a what-you-see-is-what-you-get (WYSIWYG) interface
- Direct access to advanced translation capabilities using both machine and human translation
- Baselining and advanced versioning for long-term structural integrity
- Collaborative content review
- Automated content publishing

## Adjacent Opportunities

### Going beyond our core focuses, we have identified adjacent areas where we believe increased investment can capture even more opportunities.

Through white space analysis we determined where we can create new offerings of interest to our target accounts. Premium verticals are a good example as our deep experience working closely with multiple players in the same vertical gives us a competitive advantage.

To build on and expand our existing vertical expertise, we made some crucial changes within our sales and delivery organisation. This means we'll have a better understanding of our customers and the ability to provide solutions tailored to the vertical-specific needs of our customers – a comprehensive approach to content, translation and delivery that goes beyond traditional offerings.

**SDL Marketing Solutions**

Studies show that a company's brand is important to its continued success. Because of this, it is not sufficient to merely translate brand content. The essence of the content has to be maintained for every target market.

**SDL Marketing Solutions includes the following services:**

- Managed Web Content Services – translation, editing and omnichannel delivery services for global site management and content publishing.
- Transcreation & Copywriting Services – a complement to all forms of translation and adaptation for creative local marketing.
- Content Production Services – image, video, graphic, and animation localisation and transcreation services.

SDL developed this offering to meet the market needs that our customers have clearly articulated to us. It combines our existing expertise, rich content services and technology in a simple supply chain and operating model that enables our customers to be more active across channels.

# Building Our Capacity for Growth

**85%** win rate of all global RFPs in the last 14 months

### Clinical Labelling for Life Sciences

SDL already has more than 83 life sciences customers. Our newly formed life sciences business unit, Global Life Sciences, is continuing to expand. And the market has responded. We have already won 85% of global RFPs we have received in the last 14 months.

This life sciences specialist service has a dedicated delivery team that includes more than 185 in-house translators, dedicated desktop publishing teams for high-quality layout, a dedicated life sciences supply-chain manager to focus on clinical trials and regulatory affairs, and ongoing training for this specialised content.

This customer-centric approach ensures that the integrated product and service packaged solutions we provide our customers fit their needs. From translation and specialised vertical machine translation, through to the expertise of our translators, creatives, technology designers and support – all of SDL will be firmly focused on meeting the specific needs of our customers and the market they serve.

All of this amounts to SDL gaining a deeper understanding of what our customers need to be successful to ensure our own continued success as well.

### Machine Learning

An emerging and exciting technology area is Machine Learning. We see use cases across a wide array of industries.

For example:

- Our computers now use Facial Recognition for authentication
- Email servers can detect and filter out spam based on keywords and patterns
- eCommerce engines are capable of recommending products based on user behaviour
- Doctors rely on computers to properly diagnose patients
- The race is on right now between several companies to bring self-driving cars to market
- Financial software use pattern recognition to detect and prevent fraud
- Speech and Natural Language Processing innovation is accelerating

We use the word “revolutionary” lightly these days, but machine learning truly is revolutionary.

SDL has been at the forefront of machine translation (MT) since 2005 with the introduction of the first Statistical MT technology. We now see Neural MT as a new disruptive wave for our market. Even in its current nascent form, Neural MT offers:

- A significant overall quality boost (quality being the main factor driving the technology adoption)
- Easier development of new Language Pairs
- A radically different modelling paradigm that enables new opportunities for innovation in the fields of Natural Language Processing (NLP)

SDL is uniquely positioned to succeed in Neural MT and NLP thanks to two key ingredients: talent and data.

**Talent**: SDL has one of the best research teams in the industry, who published over 200 scientific papers and acquired 45 patents in MT. We are now leading research in Neural MT and have built an infrastructure that translates over 20 billion words per month. In an engineering feat, we have also delivered fully on-premise machine translation, addressing the privacy and security requirements of highly regulated industries.

**Data**: As Andrew Ng wrote, "Among leading AI teams, many can likely replicate others’ software in, at most, 1–2 years. But it is exceedingly difficult to get access to someone else’s data. Thus data, rather than software, is the defensible barrier for many businesses." Our 25 years’ experience in the Language industry has helped us build a unique dataset far superior to what can be found in the public domain. Also, as proven in many AI applications, we know that the combination of the power of machines and the human finesse is vastly superior to either one alone. That is why we have combined both with our Adaptive MT: improving our MT engines with feedback data from human translators.

But Machine Translation is just the tip of the iceberg. SDL's research tackles every aspect of Natural Language Processing: Synthetic Content Generation, Syntactic Parsing, Language Modelling, Sentiment Analysis, Topic Modelling, Information Retrieval, etc. This investment will prove applicable far beyond translation. We also see new opportunities to embed machine learning in our content products, making the predictive elements of a truly exceptional digital experience an integrated reality.

**Global Connectors**

Our content connectors bring one-click translation regardless of cloud or on-premise location. This replaces the need for manual export and import of content to and from these disparate systems. Using our content connectors, customers get the ability to transfer content easily, wherever it lives. The connectors offer a solution to organisations looking to scale their global reach.

Although we are proud of our cloud offerings and integrations with our content management technology, we understand that our customers have technology ecosystems and different repositories that house the many different valued content assets they use both for internal and external communication. The benefit of removing language as a barrier is clear.

To address this need, our connector strategy provides one-click translation capability from more than 26 systems and includes a growing portfolio including everything from digital asset management (DAM) systems for multimedia connectors to taxonomy systems as well as all primary content management systems.

This differentiates SDL from our competition as our technology can tap into our customers' existing IT landscape, providing language and translation options throughout an organisation.

Access to storage repositories and easy back-office content transfer is now a core translation strategy. We are committed to this strategy as demonstrated with last year's launch of our innovative SDL Instant Translation connector. With this connector, we now enable our customers to translate all critical customer data directly from Salesforce.com platform, making the information that was formally restricted by language available to their entire workforce.

Going beyond the internal business benefits of our connectors, we integrated machine translation into one of the world leading travel portals, translating billions of user-generated words every year.

We believe that this connector strategy will accelerate the elimination of language as a barrier for more effective internal operations as well as external communication. We will continue to grow these premium solutions for both verticals and content types, providing value added for many different technology vendors.

**Thomas Labarthe, EVP Business & Corporate Development**

Driven by a desire to learn, Thomas is well suited to helping SDL grow. In addition to corporate development, he is in charge of incubator opportunities and complex topics like machine translation and machine learning.

# Chief Financial Officer's Review

Dominic Lavelle

## Summary Performance

2016 has been a positive year for our Continuing Operations. In line with our plan, we have begun investing in the transformation of our Language Services business after several years of under-investment and our Language Technologies and Global Content Technologies businesses have both delivered material increases to profitability this year.

Revenue from our Continuing Operations were up 10% at £264.7 million (2015: £240.4 million). This growth was driven by the positive benefit of foreign exchange tailwinds, an 8% increase in our Language Services business, a 24% increase in our Language Technologies business and a 6% increase in our Global Content Technologies business. Technology Annual Recurring Revenue grew 7% to £61.8 million. Total Group revenue increased by 9% to £289.9 million (2015: £266.9 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 broadly in line with the prior year, with the 20 largest customers contributing 24% (2015: 22%) of revenue in 2016. No single customer contributes more than 5% of Group revenue.

Adjusted PBTA for Continuing Operations was £27.0 million (2015: Group £20.6 million, Continuing Operations £24.2 million). Language Technologies and Global Content Technologies combined profitability increased by £12.0 million in 2016 which more than offset the impact of planned investments in the Language Services business. The Group loss after tax amounted to £18.1 million, after one-off costs of £13.1 million and the loss on sale of the Campaigns business of £21.0 million (2015: loss after tax, £30.7 million, after an impairment charge of £33.3 million and other one-off costs of £5.8 million).

Gross cash in the business at the year-end was £21.3 million with no external borrowings (2015: Gross cash £17.2 million; net cash after borrowings £12.4 million). Cash generated from operations was £18.6 million (2015: £12.0 million). Cash generation in the year has been impacted by the Group's improved underlying profitability and cash outflows associated with the restructuring programme. Capital expenditure was £2.3 million (2015: £2.7 million) and the net cash impact of the disposal of the Campaigns business was an outflow of £1.6 million. Tax paid was £6.5 million (2015: £5.8 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."

CFO Review

## Key Performance Indicators

The Board reviews a number of key performance indicators (KPIs) to monitor and assess performance on an on-going basis. These KPIs include:

- Revenue growth
- Gross margin
- Adjusted PBTA and margin, and
- Cash generated from operations

The Group's performance against these KPIs in the current and prior year are included within this report. The Board believes that monitoring Adjusted PBTA and margin is the most appropriate profit measure to review because it is the most meaningful indicator of medium and long term business performance. Specifically, this profit measure excludes the impact of:

- One-off costs incurred over the past two years associated with the reorganisation of the Group; these costs are not expected to recur and these are explained in more detail below
- Amortisation, a non-cash charge based on acquisition decisions taken a number of years ago, which has no impact on future performance and business valuation, and
- Profits or losses arising on the sale of Non-Core businesses which, whilst material, do not reflect the future operating potential of the business.

In addition to these core metrics, the Group is now monitoring and reporting a number of additional KPIs to measure whether it is successfully executing its new strategy. These additional KPIs are set out and defined as follows:

- Technology Annual Recurring Revenue (ARR), £61.8 million (2015: £57.6 million): Annual Recurring Revenue is annualised revenue from existing contracts which includes term, SaaS and support and maintenance revenue streams. Annual Recurring Revenue current and prior year amounts are all translated at the 2016 year end foreign exchange rates
- Language Services Repeat Revenue Rate (RRR), 93%: Language Services Repeat Revenue Rate is calculated as current year revenue earned from prior year customers as a percentage of current year revenue; the difference between RRR and total revenue is current year revenue from new customers
- Premium revenue, £9.4 million: revenue arising from the sale of premium content such as Life Sciences and Transcreation; the difference between total Language Services revenue and premium revenue is non premium revenue
- Upsell deals, 176: number of further sales of existing products to existing customers
- Cross-sell deals, 52: number of sales of new products to existing customers
- Wins in Life Sciences, 8 out of 9 Global RFPs: the number of new Life Science customer wins achieved in the year
- Machine Translation wins, 38: the number of new Machine Translation contracts
- Linguistic utilisation, 48.5%: the percentage of time in house linguists are translating content and not performing other tasks such as administration of files

The ARR KPI has been measured in prior years and hence comparatives have been presented. Other strategic KPIs have only started to be calculated and reviewed in the later part of 2016 and hence comparatives are not available.

The revenue basis for RRR and premium revenue is calculated in line with Generally Accepted Accounting Principles ("GAAP"). The remaining strategic KPIs set out above have no direct reference to any GAAP measure and hence cannot be reconciled to the Group's financial statements. ARR is an annualised measure of contracts at a point in time and hence cannot be reconciled into revenue recognised during the year.

The Group is no longer reporting bookings performance as a separate KPI as the Board believes revenue growth and ARR are highly correlated to bookings performance and thus it is not considered that the separate bookings KPI provides material additional insight to the user of the financial information.

## Performance by Segment

Following the announcement in January 2016 of the intention of the Group to dispose of its Campaign, Fredhopper and Social Intelligence businesses, these businesses have been designated as assets held for sale and their activities have been reported as Discontinued Operations. The Group's segmental disclosures have been adjusted so that Discontinued Operations results do not include proportionate allocations of shared costs. The impact of this change has been to reduce the costs attributed to the Non-Core segment in 2015 by £6.0 million and to increase costs attributed to the Language Services, Language Technologies and Global Content Technologies segments by £2.4 million, £0.3 million and £3.3 million respectively.

**Language Services** (contributing £165.3 million or 62% of revenue from Continuing Operations and £18.8 million of Adjusted PBTA) (2015: £152.7 million or 64% of revenue from Continuing Operations and £28.0 million of Adjusted PBTA).

2016 saw a solid performance with Language Services achieving an 8% increase in revenue at £165.3 million (2015: £152.7 million). Underlying growth, adjusting for the impact of the loss of the Group's largest customer (Microsoft) at the end of 2015, was 15%. The Language Services RRR was 93%. The underlying RRR, ignoring the loss of Microsoft, was 98%.

Revenue growth in year has benefitted from the impact of foreign exchange and organic growth has been primarily driven by increased activity within large accounts in the US. The investment in customer service and quality has led to improved relationships with a number of existing customers.

The Language Services segment has won a number of new clients in the year including Basware, PSA Peugeot Citroen, Lindex, Konsberg and Yara. The impact of recent successes in premium market verticals including Life Sciences occurred late in the year and have not materially impacted the results this year.

The Language Services division in 2016 has been investing in the development of capability in premium market verticals, delivery and quality initiatives and operational infrastructure after several years of underinvestment. These planned investments have reduced gross margins to 42.8% (2015: 47.3%) and the Adjusted PBTA margin to 11.4% (2015: 18.4%). They have, however, contributed to the Language Services high Repeat Revenue Rate and significant recent wins in premium verticals. These investments will continue in 2017 as they are critical to the strategic positioning of the business and will deliver increased sales and improved margins in future years.

**Language Technologies** (contributing £45.4 million or 17% of revenue from Continuing Operations and £4.4 million Adjusted PBTA) (2015: contributing £36.7 million or 15% of revenue from Continuing Operations and £1.0 million Adjusted PBTA).

Language Technologies revenue in the year increased by 24% to £45.4 million, including the benefit from the impact of foreign exchange. ARR increased 9% to £23.4 million.

8% Revenue Increase Language Services

24% Revenue Increase Language Technologies

6% Revenue Increase Global Content Technologies

The Language Technologies revenue increase was driven by a 72% increase in Machine Translation revenue, a 20% increase in Translation Productivity revenue and a 7% increase in Translation Management revenue. The refocus of Machine Translation investment last year towards increasing output quality and the release of our on premise SDL ETS 7.0 product has led to significant perpetual licence sales in 2016. Material sales have been to government customers seeking portable real time translation capability and a commercial language service provider requiring improved machine translation capability. SDL ETS 7.0 delivers increased manageability, new features and a significant improvement to the user experience.

Our Translation Productivity products have had another strong year with revenue up 20%. The launch of SDL Trados Studio 2017, SDL MultiTerm 2017 and SDL Passolo 2016 at the end of the year delivers a step change in translation memory productivity with our ground breaking upLIFT technology, and offers the AdaptiveMT technology directly accessible from the SDL Trados Studio interface to our customers. These releases had our highest ever pre-order volume and the incorporation of AdaptiveMT capability has further strengthened our competitive position.

Our Translation Management products achieved more modest growth in 2016 after a strong 2015 performance. Strong renewals activity has led to a 5% increase in ARR.

# CFO Review

During the year, our Translation Management products were improved with significant point releases. TMS releases delivered user interface and usability improvement, translation quality metrics, API improvements and deeper integration with our SDL Trados Studio and SDL Web products. SDL WorldServer 11.1 increased security and scalability, improved usability by delivering key features like multi-search, improved project creation tools and import/export capabilities, and delivered a deep integration with our SDL Language Cloud Machine Translation services, the latest SDL Trados Studio 2017 release and the SDL Web in-context translation preview functionality.

In 2016, we also started the execution of our technology convergence program to align our technologies and increase product innovation. Alongside this convergence program, we released a significant number of new capabilities on our SDL Language Cloud platform ranging from User Experience improvements and functional enhancements, to entirely new offerings like the Universal Editor and AdaptiveMT. In addition, a wide range of connectors were released to tap directly into our Language Cloud platform from customers' existing IT application landscape.

Adjusted PBTA margin increased 7.0% to 9.7% (2015: 2.7%). The margin increase has been driven by the improved licence sales in Machine Translation and Translation Productivity products.

New client wins for the segment include Accor Hotels, AGCO, Alingo GmbH, Alticor, PSA Peugeot Citroen, and Vanilla Air.

**Global Content Technologies** (contributing £54.0 million or 21% of revenue from Continuing Operations and £3.8 million Adjusted PBTA) (2015: contributing £50.9 million or 21% of revenue from Continuing Operations and losses of £4.8 million Adjusted PBTA). ARR was up 6% at £38.4 million.

Global Content Technologies revenue increased by 6% in 2016 including the benefit from the impact of foreign exchange. This increase was driven by a 38% increase in Technical Content Management revenue following a material increase in perpetual licence sales in the year. Our SDL Knowledge Center product has gone through several update cycles with specific focus on dynamic delivery scalability and performance. We also released version 5.5 of the Contenta Publishing Suite, improving the delivery of content on tablet devices as well as delivering addition security, usability and publishing enhancements.

Web Content Management software revenue fell 11% in the year due to a shift in sales from perpetual licence contracts towards SaaS contracts and a related reduction in professional services activity. For SDL Web, we have significantly increased the release pace for delivering new capabilities to the cloud-based SDL Web offering and all of these new innovations have been rolled up in the SDL Web 8.5 release, for on-premise deployment. This release comes with significant improvements to workflow capabilities, deployment automation, reduced total cost of ownership, upgrade efficiency and numerous new product features. This improved Web Content Management offering helped drive new term and SaaS licence sales and this helped drive a 2% increase in Annual Recurring Revenue to £22.8 million.

Adjusted PBTA increased £8.6 million in 2016 to a profit of £3.8 million (2015: Loss of £4.8 million). The actions taken in the second half of 2015 and in early 2016 to right size sales and marketing resources has transformed the profitability of the segment this year.

New client wins for the segment include AGCO, Akamai, Appatura Data Communique, China Airlines, EBSCO, Malvern Instruments Limited, Radiometer Medical ApS United States Air Force KC46A Program and Waters Corporation.

**Non-Core businesses** (contributing £25.2 million of revenue and losses of £24.5 million Adjusted PBTA including £21.0 million loss on disposal of the Campaigns business) (2015: contributing £26.5 million or 10% of Group revenue and losses of £3.6 million Adjusted PBTA).

Our Non-Core businesses include the full year results of our Fredhopper and Social Intelligence businesses and the results of our Campaign business to the date of its disposal on 2 November 2016. The businesses performed well given the uncertainty created by the announced disposal programme.

The Group disposed of its Campaign business to an acquisition vehicle owned by affiliates of Allomer Capital Group LLC for £2.4 million before purchase price adjustments. Further details of this disposal are provided in Note 3 of the preliminary financial information and the Group recorded a loss of £21.0 million on disposal.

On 29 January 2017 the Group signed an agreement to sell its Fredhopper business to ATTRAQT PLC for £25 million subject to ATTRAQT PLC being readmitted to the AIM market. This condition is expected to be satisfied during the week commencing 6 March 2017. The Group is expected to record a profit on disposal of approximately £22 million and this will be recorded in the Group's 2017 financial statements.

The Group continues to pursue the sale of its Social Intelligence business.

## Gross Margin

The Group's Continuing gross margin was slightly below last year at 54.4% (2015: 55.9%).

## Administrative Expenses

Administrative costs of Continuing operations excluding intangibles amortisation and one-off costs increased in 2016 to £117.0 million (2015: £110.1 million).

Research and Development costs of £25.9 million (2015: £25.9 million) are included in administrative expenses. In line with the prior year, the Group issued approximately 100 product/service updates and upgrades with greater functionality being deployed.

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 was up 2% at 3,580 (2015: 3,504). Average headcount for Continuing Operations was up 3% at 3,310. Employee related costs remain the most significant component of Group costs, amounting to 59% of Group overheads (2015: 59%) 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 2016 was £5.2 million (2015: £6.7 million).

## One-off Costs

The Group has undergone a very significant reorganisation over the past two years including the departure of its then Chief Executive Officer in October 2015, the completion of the Group's operational review in January 2016 (including the announcement of the disposal of the Non Core businesses) and the appointment of a new Chief Executive Officer in April 2016. These events then led to significant changes in senior personnel, the development of the new strategy, corporate rebranding and the reorganisation of operational and corporate structures. In addition the Group has incurred one-off tax charges over the past two years.

As a result, the Group has incurred significant one-off costs over the past two year which are not expected to recur and therefore have been separately disclosed in the income statement to provide a better guide to underlying business performance.

In 2016, the Group has incurred £13.1 million of one-off costs (2015: £33.3 impairment write down and other one-offs of £5.8 million). These one-off costs comprise:

- Redundancy and retention costs due to the reorganisation of the Group in 2016 (£6.5 million). Redundancy costs of £4.8 million generated annualised cost savings of £13.7 million (before significant reinvestment);
- Professional fees and related charges associated with the strategy development (£2.8 million);
- Costs of relaunching SDL which included the costs of internal and external conferences to communicate our new strategy and the global relaunch of SDL's brand and associated marketing collateral (£2.1 million); and
- Other one-off costs includes provision for indirect tax liabilities and corporate consolidation exercises (£1.7 million).

As a result of the above, the Group now has the right strategy, brand, leadership and organisational structure to realise the full potential of our market opportunities and deliver shareholder value.

## Earnings Per Share

Adjusted EPS for Continuing Operations increased by 25.6% to 26.58 pence (2015: 21.17 pence). Adjusted EPS for the Group increased to 22.38 pence (2015: 16.13 pence). Basic earnings per share was a loss of 22.29 pence (2015: loss of 37.93 pence).

## Financing Costs and Borrowing Facilities

Interest costs in 2016 were £nil (2015: £0.1 million). At the start of the year, drawn borrowings were £4.8 million. During 2016, all borrowings were repaid such that the Group was debt free at 31 December 2016.

The Group has a £25 million committed revolving credit facility, expiring in August 2020. The agreement also includes a £25 million uncommitted Accordian facility.

# CFO Review

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 ("Adjusted EBITDA"). 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. Adjusted EBITDA is defined within the facility agreement and is based on Adjusted PBTA.

## Cash Flow

The Group generated £18.6 million from operations during the year (2015: £12.0 million). This cash inflow in the year was net of £11.1 million of cash outflows arising from one-off items (2015 £3.8 million).

Surplus cash, after deducting net income tax paid of £6.5 million (2015: £5.8 million) and investing activities of £3.9 million (2015: £2.9 million), has been used to reduce the Group's bank borrowings by £4.8 million and pay a dividend of £2.5 million to shareholders. The Group's bank borrowings have been fully repaid in 2016.

As a result, net cash increased to £21.3 million at year end (2015: £12.4 million).

The Group's 2017 cash outflows will be impacted by residual one-off cash costs and material capital expenditure on the Group's infrastructure and efficiency investments.

## 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.

## Foreign Currency Exchange Impact

We are a global business and we operate in 38 countries. The significant majority of Group revenue and costs are denominated in non-sterling currencies. Many of the Group's global customers are US based requiring translation into other worldwide languages. As such, the Group has a net long US$ position which is largely offset by short positions in other worldwide currencies. Accordingly the impact of the sterling devaluation during the year is not considered to have had a material impact on the Group's Adjusted PBTA margin percentage, year on year.

## 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 Continuing Operations is £2.7 million (2015: Continuing Operations £5.3 million). The group tax charge amounted to £2.3 million (2015: £5.5 million).

These charges include tax credits associated with amortisation, deferred tax and tax on one-off costs. Excluding these impacts, the underlying effective current tax rate for Continuing Operations was 27.3%. This rate is impacted by unrelieved tax losses arising in a number of jurisdictions and the utilisation of tax losses in other territories. The underlying effective current tax rate for Continuing Operations going forward is expected to in the region of 27%.

## Trados Litigation Update

As previously reported, 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 2016 of 6.2p pence per share will be proposed at the Annual General Meeting, an increase of 100% on the prior year.

**Dominic Lavelle**
Chief Financial Officer

# Principal Risks and Uncertanties

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 Board has performed a robust assessment of the principal risks facing the group, including those that could threaten its business model, future performance, solvency, liquidity and the Group's strategic objectives.

The Group's risk management process is built around the risk register. 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 development of mitigation plans and actions to manage these risks is delegated to the Executive Committee and other senior management. The Executive Committee and their teams are also responsible for the identification, evaluation and management of local risks. Alongside this, the Audit Committee review the controls framework and the effectiveness of the mitigations identified to manage the 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 & agrees acceptable risk profile. | Monitors risk management policies and procedures against strategic objectives. | Reviews risk register.<br><br>Regular review of operational, financial 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. | Performs detailed reviews of financial and other risks as appropriate. | |
| Challenges and assesses risk register including detailed review of key items. | | |

# Principal Risks and Uncertanties

## Strategic risks

| Description | Risk | Mitigation |
|---|---|---|
| Competition strategy – services | Revenue and profitability reduction. Services business fails to sustain competitive advantage. | Strategic change program has put in place new multilingual and language office framework to optimise delivery. Empowering local operations to respond to local markets. Continued 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. |
| Competition strategy-technology | Reduction, 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. Continue to develop product integration strategy. |

## Operational risks

| Description | Risk | Mitigation |
|---|---|---|
| Human resources | Company dependent upon the ability and experience of certain key employees in key functions. | A CEO with a strong technology background has been appointed. The Chairman has returned to his Non-Executive Chairman role.<br><br>A new Non-Executive Director was appointed in 2016 to increase independent representation on the Board.<br><br>A Group-wide talent management process has been completed and reviewed by the Board. |
| Cyber risk | Data privacy and protection – financial loss, disruption or damage to the Group's reputation from failure of its information technology systems. | IT/Data Security/Data Privacy: Handled within the IT risk management framework and security teams. Compliance requirements are being addressed for 2018 EU regulations including IT infrastructure, penetration testing and employee training. Group-wide IT systems monitoring is in place. |
| Information security | Legislation/Client requirements: Fail to respond to emerging security legislation. | ISO27001 certification process includes audit and review of external providers' capabilities. Deficiencies are assessed as part of procurement processes. |
| | Backup of disaster recovery processes and IT security does not match customer requirements. | EU-US Privacy Shield registration completed. PCI guidelines are monitored and security upgrades implemented as appropriate. |
| Transformation | Planned returns from investment in systems not realised. | Project teams and plans in place with strategic objectives monitored regularly. |

**Financial risks**

| Description | Risk | Mitigation |
|---|---|---|
| Economic downturn | Sharp decline in demand from key customers and verticals. | Careful management of internal vs external sourcing of services.<br><br>Monthly reviews of activity and forecasts. |
| Currency movements | Trading patterns and/or intercompany trading/loan patterns expose the Group to foreign exchange risk. | Periodic reporting and review of Group currency exposures.<br><br>Controlled program of intercompany balance settlement in place and balance sheet exposure reduced. |
| Brexit and the Economic Environment | Potential changes to tax, trading and other arrangements with European countries/authorities. | Global nature of SDL's presence. Ongoing dividend repatriation to the UK.<br><br>Continued review of latest information available.<br><br>Location of the Group's assets worldwide is kept under review. |
| Taxation | Assessment by tax authorities results in disallowance of intercompany or other charges | Formal agreements in place. All intercompany transactions take place at arms length. |

## 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.

This is the period focused 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 whilst 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 focused 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 25% 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 achieve the objectives set out by CEO, Adolfo Hernandez, in the three-year plan detailed in his review, and meet its liabilities as they fall due over the period to 31 December 2019.

# People Strategy


Employee Headcount Overview:

**2016: 3,580 employees in 38 countries**

**2015: 3,504 employees in 38 countries**

In the digital world, it's the human experience that matters. We are passionate about this as a company and we are equally committed to delivering a uniquely personalised and dynamic environment to our worldwide employees.

To execute our strategy with speed and precision demands we have the best people who are inspired to perform at their very best. To deliver on that, our People Strategy is focused into five pillars: Leadership, Alignment, Growth & Enablement, Recognition and Employee Experience.

1. **Leadership**

   To enable leaders to lead with clarity and help their employees be more agile, adaptable and successful, we have dedicated programs around executive coaching, competency assessments, talent review & succession management and leadership development programs.

2. **Alignment**

   To ensure all parts of the organisation are aligned to the corporate strategy, we have cascaded objectives and balanced scorecards from the top to each department and down to each team and individual. This promotes line-of-sight between the work people are doing and the high-level desired results, and ensures accountability at each level.

3. **Growth & Enablement**

   We continue to inject new talent into the organisation as needed and provide continuous learning opportunities to our employees through resources like Skillsoft. In the community, 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 2016 adding 40 new universities as education partners bringing the total to over 500 worldwide in 76 countries. SDL Research also 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, Johns Hopkins University, University of Cambridge, Heidelberg University and University of Sheffield.

**4. Recognition**

When people's contributions are recognised by the organisation, it has a positive impact on how much they value their employment relationship with SDL. To this end, we have implemented an employee nominated awards programme. This formal awards programme recognises individuals for outstanding performance at our annual kickoff meeting and received over 250 submissions this year.

**5. Employee Experience**

People will work in positive environments – characterised by appealing environments, streamlined infrastructures and positive culture – that breed engagement and enable them to be their best.

In our annual employee survey, conducted in April 2016, 2,521 people participated and there was overwhelming support for SDL's culture with 3948 positive comments versus 585 constructive comments. SDL was praised for having a flexible, open and friendly work environment which offers challenges and opportunities for professional growth.

Regarding constructive feedback provided, employees wished for more work/life balance and recognition, which is now being addressed through the people strategy. To continue fostering great work environments, SDL has identified key offices which will be improved or moved to a new facility, which will enable us to create more modern and stimulating work environments for our employees.

## 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 and employ people from 38 countries, with 68 nationalities making up the workforce.

Gender diversity is a key goal for us. Over the SDL Group we employ close to equal numbers of men and women, with slightly more women (52%). The proportion of women in senior management is slightly below this ratio (female senior managers: 45%, male senior managers: 55%).

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.

## Whistleblowing Policy

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 2016. 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.

**Roddy Temperley, Chief HR Officer**

Roddy is committed to engaging SDL's workforce by providing the right environment, opportunities and culture that enable people to thrive. Having worked for SAP, Credit Suisse and PeopleSoft, Roddy is well equipped to develop creative and effective people programs and solutions that drive SDL's culture and environment.

# Corporate Responsibility

## SDL Foundation

2016 saw the SDL Foundation continue 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 the recipients of its funding 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.

The SDL Foundation also continued to put a strong emphasis on employee engagement and collaborated with SDL's corporate social responsibility (CSR) programme to enhance awareness of the SDL Foundation and increase employee involvement from SDL's global offices in CSR activities. In addition to providing funding for these collaborative initiatives, the Foundation also promoted fund raising activities within certain SDL offices in support of the charities that the Foundation helps.

**Projects in 2016 include:**

**Microloan Foundation (MLF)**

The SDL Foundation has supported MLF for a number of years, enabling the charity to make small loans to women in Malawi and Zambia, which allow them to set up and sustain small businesses. The success of these businesses allow the families to provide for themselves, improve health and attend school.

During 2016, the Foundation extended the partnership by providing a significant sum to enable MLF to start the process of registering and establishing operations in Zimbabwe. As with the previous countries the loans will be aimed at the poorest rural areas where the Poverty Index and daily incomes are below the national averages.

**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 Maisha Bora.

Over the past two years, great strides were made with the village elders and community leaders who are responsible for developing income-generating projects, driving attendance at the local schools, improving results and educating the community on the importance of hygiene and good health. The Foundation's funds were specifically used by the community to successfully establish small businesses which are themselves providing employment for other members of Maisha Bora.

**Fancy Stitch. Ingwavuma**

This is a remote community in South Africa that the Foundation had previously supported marketing initiatives to bring the products made by the women to a wider audience enabling them to earn a better income and provide for their families.

In this latest initiative, the SDL Foundation funding supported the enclosure of storage buildings to protect crops, provide water-capture equipment to lengthen/protect the crop's growing season and provide accommodation for after-school teaching to enable the local children to build on their language and mathematics skills for a better chance in their regular schooling.


Kyrgyzstan

Corporate Responsibility

> "Being encouraged to volunteer has helped not only make my job more meaningful, but also proud to be part of the SDL team."

Liesl Leary, SDL Employee

## Employee Engagement

Employee engagement is at the cornerstone of the SDL Foundation's objectives and the Trustees continue to work alongside the Corporate Social Responsibility teams by encouraging the employees to "get their hands dirty" by providing their time and skill sets to the advantage of those less well off in society and their local communities. The following examples highlight key employee-led endeavours supported by the SDL Foundation:

**Blythswood**

The SDL Romania office teamed up with Blythswood to complete the construction of affordable accommodation for young people emerging from social care and into vocational training and first-time employment roles. The affordable housing enables these socially and economically disadvantaged youngsters who have been abandoned by their families find security and support as they take their first adult steps into re-integrating with their local communities. The SDL Foundation provided the funding to support the Romanian office employees in their task.

**Habitat for Humanity (HfH)**

At the tail end of 2015 the SDL Foundation made a substantial donation to Habitat for Humanity to enable them to construct affordable accommodation for deserving families who want to better their lives. The partnership with HfH then enabled employees from the SDL offices in Boston, Denver and Bangalore to be involved in the construction phases using the "days in lieu" that SDL offers all employees provided they use them for appropriate charitable causes.

**Il Sole**

Il Sole works with sexually abused children in Ethiopia, most of whom are also rejected by their families. The emphasis is on rebuilding their self-esteem, providing them with education and vocational training and helping them back into society with the ability to provide for themselves. The SDL Italy office worked closely with Il Sole for a number of years, with the employees providing their translation skills pro bono to enable fund raising and progress reports on the children to be translated.

## CSR at SDL

For more than 25 years, SDL has transformed not only global businesses, but local charities as well. Our commitment to developing personalised connections across the globe means we are passionate about giving back to our communities. That's why all SDL employees receive 5 paid leave days on top of annual leave to do charitable work. See below some example of charitable work carried out by our employees in 2016:

**Bake Sales**

- SDL Sheffield organised a donor recruitment drive for stem cell donors for the blood cancer charity DKMS, a cause very close to the hearts of the PMO team. Many colleagues baked goodies of their own to sell and in total the team registered 36 potential stem cell donors and raised an impressive £600.
- SDL Maidenhead colleagues also baked a wonderful spread of cakes and savouries to raise money for Macmillan Cancer Support and Endometriosis UK and raised £430 for the two worthy charities.

**Fitness First**

- Eight SDL Leuven colleagues, took part in a 5-10km run in Dilbeek, Belgium, to support a project that raises funds to educate young students in the Lao People's Democratic Republic.
- In many countries around the world people, including small children, must walk miles to the nearest source of water, which is often of very poor quality or even dangerous to consume. SDL colleague, Steve DeNeefe, decided to do his bit to help by running the LA Marathon on St. Valentine's Day to raise money for communities in Africa. Steve raised a very impressive $1,342 for World Vision, the largest non-government provider of clean water on the planet. The SDL Foundation contributed to Steve's total by donating an additional $700.
- 18 colleagues from SDL Sheffield and Maidenhead participated in the annual Palace to Palace cycle ride – from Buckingham Palace to Windsor Castle, a distance of 45 miles. This year, the team was led by our CEO Adolfo Hernandez, and supported by our Chairman, David Clayton.

**Lending a Hand**

- SDL Wakefield was honoured as a Gold Tier supporter for the charitable work colleagues have done over the past 12 months for the Boys and Girls Club of Stoneham. Wakefield colleagues have made sizable donations, both monetarily and with their time, leading them to receive the highest recognised support level.

**22.7%**

Decrease in total $CO_2$ footprint

- SDL San Jose colleagues teamed up with LifeMoves, a charity dedicated to providing interim housing and supportive services to help homeless families and individuals return to long-term self-sufficiency. San Jose colleagues volunteered at the Commercial Street Inn where they offer services for veterans, single adults and homelessness prevention.
- Cluj colleague, Catalin Grigoriu, helped out in an orphanage in the small village of Sauraha, in the Himalayas, where he rose at first daylight every day (5.30am) and worked until the sun set (7pm) helping with all the daily tasks.

## Environment

As a socially responsible organisation, we recognise the importance of reducing our environmental impact wherever possible. To enhance our environmental leadership, we pledge to limit our contribution to climate change by managing and counteracting our greenhouse gas emissions. SDL retained Carbon Clear to measure the organisational carbon footprint with the following objectives:

- Calculate a detailed carbon footprint for the 9 main office locations
- Enable SDL to comply with Mandatory Greenhouse Gas Reporting regulations. This summary provides details of the carbon footprint for SDL's global operations based on a sample of sites, including UK Head Office in Maidenhead and eight other major locations, in total accounting for >80% of global revenue.

The footprint covers the period of the 12 months ending 31st December 2016 and is presented alongside the data for the previous period (2015) for comparison. The footprint was calculated by Carbon Clear using data provided by SDL and was conducted in line with the ISO-14064-1:2006 standard for organisational carbon foot printing with no material emissions excluded.

This footprint has been uplifted for all of SDL's remaining offices based on revenue to give figures for SDL's global operations. As in previous years, we have increased the number of sites from which primary data is collected meaning the footprint is, once again, more accurate and meaningful.

Corporate Responsibility

## Global Footprint

The results show that GHG emissions in the period were 6,843.6 tonnes of CO2e, comprised of the following; Scope 1 & 2 – Combustion of fuels & operation of facilities.

- Direct Emissions (Scope 1) were 475.3 tonnes of CO2e or 7% of the total.
- Indirect Emissions (Scope 2) were 1,475.3 tonnes of CO2e or 22% of the total. Scope 3 – Additional Activity Data Reported
- Other, Indirect Emissions (Scope 3) were 4,893.0 tonnes of CO2e or 71% of the total. The table below displays the year on year analysis for SDL's global footprint. Year on year comparison of global carbon footprint 2016 vs. 2015

29% Decrease business travel emissions

34% Decrease electricity consumption emissions

13% Decrease staff commuting emissions

33% Increase natural gas consumption

### Year on year comparison of global carbon footprint 2016 vs. 2015

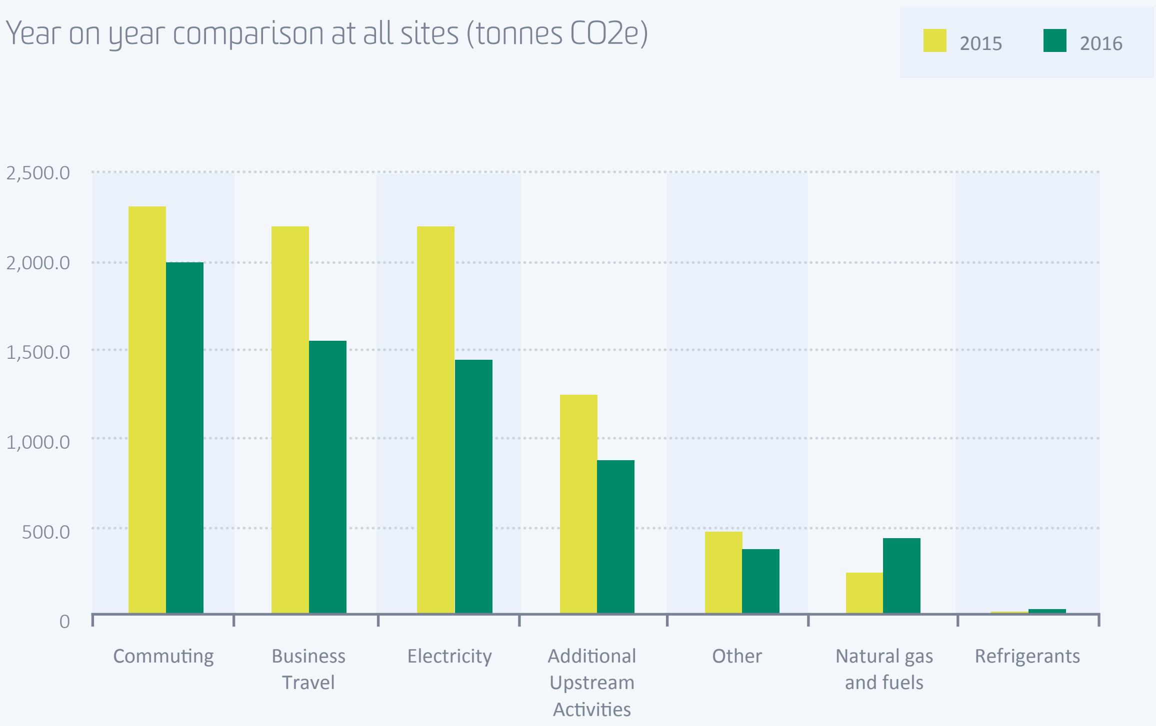
| Type of Emissions | Activity | 2015<br>tonnes $CO_2e$ | 2016<br>tonnes $CO_2e$ | Percentage change<br>% |
|---|---|---|---|---|
| Direct (Scope 1) | Gas | 247 | 329.6 | 33.5 |
| | Pool cars / company cars | 10.9 | 117.1 | 974.0 |
| | Diesel | 0 | 0 | -70.5 |
| | Refrigerant | 15.7 | 28.6 | 82.2 |
| | **Subtotal** | **273.6** | **475.3** | **73.7** |
| Indirect energy (Scope 2) | Purchased electricity | 2,241.5 | 1,475.3 | -34.2 |
| | **Subtotal** | **2,241.5** | **1,475.3** | **-34.2** |
| Indirect other (Scope 3) | Business travel | 2,238.8 | 1,576.7 | -29.6 |
| | Commuting | 2,341.3 | 2,029.1 | -13.3 |
| | Additional upstream activities | 1,275.3 | 897.1 | -29.7 |
| | Other | 485.5 | 390.1 | -19.6 |
| | **Subtotal** | **6,340.9** | **4,893.0** | **-22.8** |
| **Total Emissions (t $CO_2e$)** | | **8,856.0** | **6,843.6** | **-22.7** |

## Year-on-Year Analysis

When compared with 2015 (Figure 2), the total footprint has decreased by 22.7% (2,012.4 tonnes CO2e). The movement in emissions year on year is summarised below:

- Emissions from business travel have decreased significantly by 29.6% (662.1 tonnes CO2e). This can be attributed to a 30.6% (628 tonnes CO2e) reduction in air travel (which is carbon intensive), attributable to sites such as Superior USA which reduced its emissions from air travel by 18%.
- Emissions related to direct electricity consumption have also decreased by 766.2 tonnes CO2e, or 34.2%. However natural gas consumption has increased by 33.5% (82.6 tonnes CO2e). This is primarily due to the additional sites included in the calculations using natural gas.
- There was a significant decrease in the emissions from staff commuting (13.3% reduction, 312.2 tonnes CO2e). It is noted that a larger number of responses to the commuting survey were received for 2016. This increase in sample size would increase the accuracy of commuting calculations.
- There has been a significant increase in the emissions from pool cars and company cars with a 974.0% (106.2 tonnes CO2e) increase in emissions.

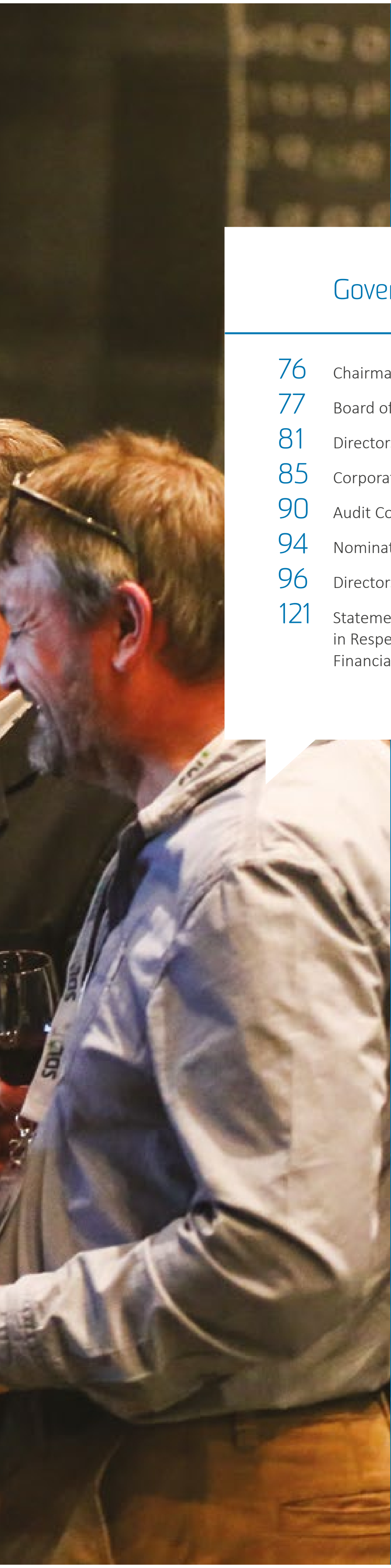
### Year on year comparison at all sites (tonnes CO2e)




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

**Dominic Lavelle**
Director
7 March 2017


SDL



## Governance

# Chairman's Introduction

## David Clayton

Dear Shareholder,

On behalf of the Board I am pleased to present the SDL PLC corporate governance report for the year ended 31 December 2016.

The Company is committed to maintaining the highest standards of corporate governance. It is a reflection of our value system, encompassing our culture, policies, and relationships with our stakeholders. Integrity and transparency are key to our corporate governance practices and performance to ensure that we gain and retain the trust of our stakeholders at all times.

Our Code of Conduct applies to all employees worldwide and demands the highest professional standards from everyone at SDL. The Company actively monitors compliance and is ready to provide advice to all colleagues on understanding their role and duties, creating a culture where individuals feel empowered to speak up and voice concerns.

The following pages set out our governance processes and explain how we have achieved some of the changes we have made. We continue to strive towards excellent governance.

David Clayton

Chairman

**David Clayton**
Chairman
7 March 2017

# Board of Directors

## David Clayton

Chairman

Tenure: 7 years (appointed December 2009)

Board Committees: Nomination

David Clayton joined SDL as a Non-Executive Director in December 2009 and has served as Senior Independent Director and, for 9 months through 2015/2016, interim Executive Chairman.

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 an executive role as Director of Strategy and Corporate Development from October 2007 to February 2012. He is currently Chairman of Forensic and Compliance Systems, a Non-Executive Director of SwiftPage Inc and Chairman of the Board of Trustees of the charity Changing Faces.

## Adolfo Hernandez

Chief Executive Officer

Tenure: 1 year (appointed April 2016)

Adolfo Hernandez joined the Board of SDL as Chief Executive Officer on 18 April 2016. Prior to joining SDL, he was CEO of Acision Limited from July 2013 to August 2015, a privately held mobile communications software company specialising in messaging systems, prior to its merger with Comverse Inc in 2015 to form Xura Inc. Before that Adolfo spent four years at Alcatel-Lucent, with his most recent position being Executive Vice President, Global Software Services and Solutions. Adolfo has also held senior management roles at Sun Microsystems Inc and spent nine years with IBM in London and Munich where he held a variety of sales leadership positions in the areas of eBusiness and Open Systems.

Board of Directors

## Dominic Lavelle

Chief Financial Officer

Tenure: 3 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: 17 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, Blue Prism plc, Frontier Silicon Ltd, and is Chairman of Eckoh plc.

## Glenn Collinson

Non-Executive Director – independent

Tenure: 2 years (appointed June 2014)

Board Committees: Audit, Nomination & 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: 5 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 FTSE 250 media group Ascential plc. 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.

# Board of Directors

## Christopher Humphrey

Non-Executive Director – independent
Tenure: 1 year (appointed June 2016)
Board Committees: Audit and Remuneration

Christopher Humphrey is a qualified accountant and has over 25 years' experience managing engineering and technology companies. He is a Non-Executive Director and Chairman of the Audit Committee of Vitec Group plc. He is also a Non-Executive Director and Chairman of the Audit Committee of Aveva Group plc. Christopher was Group Chief Executive Officer of Anite plc from 2008 until August 2015 and its Group Finance Director between 2003 and 2008. Prior to joining Anite he was Group Finance Director at Critchley Group plc and held senior positions in finance at Conoco and Eurotherm International plc. Between 2011 and 2012 he was a Non-Executive Director of Alterian plc. Christopher is a Chartered Management Accountant, a Fellow of CIMA and has an MBA from Cranfield School of Management.

## Alan McWalter

Non-Executive Director – Senior Independent Director
Tenure: 3 years (appointed March 2014)
Board Committees: Audit, Remuneration & 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.

# Directors' Report

## Introduction

The Directors of SDL PLC present their report together with the audited consolidated financial statements for the year ended 31 December 2016.

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

- Strategic report
- Board of Directors
- Corporate Governance
- Financial Statements

## General Information

SDL PLC is the ultimate parent company of the SDL Group which operates internationally. SDL PLC is registered in England and Wales (company number 2675207). The principal activities of the Group and its subsidiaries are described in the Strategic report on pages 7 to 73.

## 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 Strategic report on pages 6 to 68 considers the Group's activities and outlines the developments taking place in the markets for our products and services.

Strategic, operational and financial risks plus actions taken for their mitigation are set out on pages 63 to 65.

The Group has a £25 million committed revolving credit facility with HSBC plc, expiring in August 2020. The agreement also includes a £25 million uncommitted Accordian facility. The Group has no borrowings at 31 December 2016.

After reviewing performance in 2016, the Group's budget, forecasts and three year plans (to 2019), 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.

## Corporate Governance Statement

The Company's statement on corporate governance can be found on page 85. The Corporate Governance report forms part of this Directors' report and is incorporated into it by cross-reference.

## Strategic Report

The Strategic report is set out on pages 6 to 68 and is incorporated into this Directors' Report by cross-reference.

## Directors

Brief biographical details of the Directors who have served during the year, and up to the date of this report, are set out on pages 77 to 80. Directors are subject to annual re-election.

- **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 28 April 2016 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. Copies are available for inspection at the registered office of the Company during business hours.

# Directors' Report

- **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 2017 AGM will be held at 9:30am on Thursday 27 April 2017 at DLA Piper UK LLP, 1 London Wall, London EC2Y 5EA. The notice of the 2017 AGM will be made available to shareholders and will also be published on the Group website www.sdl.com /About Us / Investor Relations / AGM.

## Results and Dividends

The Group's Consolidated Income Statement appears on page 129 and note 3 shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's profit before taxation, amortisation and one-off costs from continuing operations was £27.0 million (2015 – Group £20.7 million; continuing operations £24.2 million). The Directors are recommending that shareholders declare a final dividend of 6.2 pence per ordinary share in respect of the year ended 31 December 2016. If approved, the final dividend will be paid on 9 June 2017 to shareholders on the Register of Members at close of business on 12 May 2017.

## Employee Share Schemes and 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 2016 by the Trust are to be found in note 18 to the accounts. Since 31 December 2015, 10,175 shares have been purchased by the Trust to satisfy employee awards under The SDL Retention Share Plan. As at 31 December 2016 the Trust holds zero shares.

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

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

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

## Share Capital and Control

As at 6 March 2017 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 105.

## Substantial shareholdings

All persons with a significant holding, along with the value of that holding are given in the table below (share price at 14 February 2017; 490 pence)

| | Holding at 14 February 2017 | % of issued share capital | Value of Holding (£000) |
|---|---|---|---|
| Schroder Investment Mgt | 11,741,765 | 14.39 | £57,535 |
| Artemis Investment Mgt | 9,520,228 | 11.67 | £46,649 |
| Aberforth Partners | 9,002,479 | 11.03 | £44,112 |
| RGM Capital | 6,014,121 | 7.37 | £29,469 |
| River & Mercantile Asset Mgt | 4,457,393 | 5.46 | £21,841 |
| Majedie Asset Mgt | 3,712,378 | 4.55 | £18,191 |
| JO Hambro Capital Mgt | 3,210,725 | 3.94 | £15,733 |
| Legal & General Investment Mgt | 3,209,051 | 3.93 | £15,724 |
| Invesco Perpetual Asset Mgt | 2,607,540 | 3.20 | £12,777 |

## Employees

Information regarding our employees and their involvement within the business, including the Company's policy towards discrimination and diversity can be found on page 67.

Our employment policies are developed to reflect local legal, cultural and employment requirements. We ensure that there are equal opportunities for all employees, irrespective of age, gender, ethnicity, race, religion, sexual orientation or disability. Applications for employment from disabled persons are treated equally where the requirements of the job may be adequately carried out by a disabled person. Where existing employees become disabled it is our policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide retraining if necessary.

We encourage the involvement of our employees and significant matters are communicated through regular updates from: the Chief Executive Officer; Site Leaders; management meetings; the Group's intranet; a periodic digital magazine; discussion forums and informal briefings. Employee involvement is an essential element of the business.

## Health and Safety

The Chief Financial Officer has ultimate responsibility for Health and Safety.

A Health and Safety Committee, chaired by the Chief Financial Officer, meets twice a year to discuss health and safety policy and review activities. Each location in the Group has a Site Leader, responsible for day-to-day health and safety activities. Specific tasks are delegated to local managers and suitably trained individuals within the organisation.

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.

No RIDDOR reports were submitted to the Health and Safety Executive (2015: zero).

## 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. Charitable donations amounting to £3,066 were made to external charities and £205,527 (2015: £213,650) was donated to The SDL Foundation.

## Disclosure of Relevant Audit Information

So far as the Directors who are in office at the time of the approval of this report are aware, there is no relevant audit information (namely, information needed by the Company's auditors in connection with the preparation of their auditors' report) of which the auditor is unaware. Each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

## 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 note 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 'Employees'
- Disclosures concerning greenhouse gas emissions are contained in the Environment section of the Strategic report on pages 71 to 73.

**COMPANY NUMBER**

The Company number of SDL PLC is 2675207.

By order of the Board

Dominic Lavelle

Director

7 March 2017

# Corporate Governance Report

## Compliance with the UK Corporate Governance Code

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 UK Corporate Governance Code ('Code') sets out principles and specific provisions on how a company should be directed and controlled to achieve standards of good corporate governance. The 2014 version of the Code (available at www.frc.org.uk) applies to the Company for the year ended 31 December 2016. The following sections provide an explanation of how it has applied the principles in the Code and good governance principles of accountability, transparency, and focus on the sustainable success of the Company over the longer term.

The Company has complied with the provisions of the Code in this financial year, with the exception of Rule A2.1 as the Company did not have a separate Chairman and CEO for the first three months of 2016.

From January to June 2016 David Clayton served as Executive Chairman. This temporary non compliance with the Code was addressed by the Board and on the 18 April 2016 Adolfo Hernandez was appointed as CEO. David Clayton reverted to the role of Non-Executive Chairman on the 1 July 2016 following a full handover of his executive leadership role and responsibilities to Adolfo Hernandez. The division of responsibilities between the Chairman and CEO are clearly established and agreed by the Board.

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 2016 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.

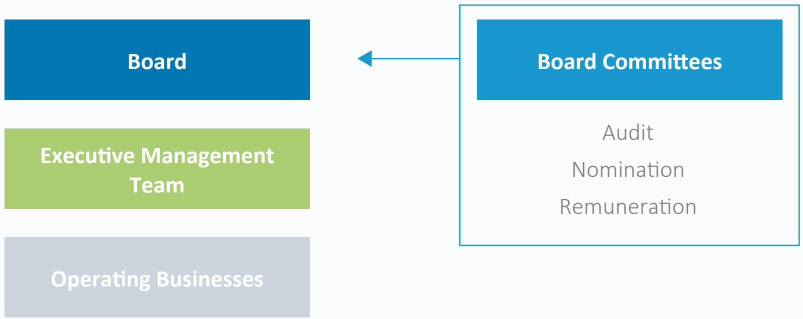
The Board and Executive management team operate within a wider governance framework. This ensures that decisions are taken at the right level of the business by the people best placed to take them. The framework allows us to run our business whilst maintaining high standards of governance that support our aim of trust and transparency. Having delegated the detailed operation of the business to the CEO and CFO, the Board holds them to account for their responsibilities. In order to do this effectively, the Board operates through a number of Committees, each made up entirely of members of the Board. Each Committee meets separately to the Board during the year, providing time to focus in depth on the particular key matters of audit, remuneration and nominations.

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.

The Board has responsibility for the long-term success of the Group but the day-to-day management is delegated to Adolfo Hernandez as CEO and Dominic Lavelle as CFO. Adolfo Hernandez has an Executive management team to support him in the day-to-day operation of the Group, all members of which report directly to him. Dominic Lavelle as CFO has a key role on the Executive management team and has certain financial responsibilities delegated to him by the Board. The Chairman, CEO, CFO, Senior Independent Director ('SID') and Non-executive Directors ('NEDs') each have clearly defined roles in the operation of the Board. Information on each member of the SDL PLC Board, including details of their skills and experience is set out in this report. The Board considers that there is an appropriate balance of skills, experience, independence and knowledge of the Company on the Board and its Committees and that all Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively. There is a strong non-executive representation on the Board which provides effective balance and challenge.

# Corporate Governance Report

## The framework




## Board Committees

- The Audit Committee consists of Mandy Gradden (who chairs the Committee), Glenn Collinson, Alan McWalter and Christopher Humphrey (appointed on 8 June 2016) all of whom are independent Non- Executive Directors. 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.

- The Remuneration Committee consists of Glenn Collinson (who chairs the Committee), Mandy Gradden, Christopher Humphrey 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) and by request from the Company Secretary.

## Directors' Attendance at Meetings

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.

The Nominations Committee assesses the external commitments of Board members to ensure that they each have sufficient time and energy to devote to their role with SDL.

| Director | Board | Audit committee | Nomination committee | Remuneration committee |
|---|---|---|---|---|
| David Clayton, Chairman | 8 (8) | 4 (4)** | 2 (2) | 8 (8)** |
| Chris Batterham, NED | 7 (8) | 4 (4)** | - | 3 (3)** |
| Glenn Collinson, NED | 8 (8) | 4 (4) | 2 (2) | 8 (8) |
| Mandy Gradden, NED | 6 (8) | 4 (4) | - | 6 (8) |
| Adolfo Hernandez, CEO | 6 (6) | 3 (3)** | - | 2 (2)** |
| Christopher Humphrey, NED | 4 (5)* | 2 (3)* | - | 4 (5)* |
| Dominic Lavelle, CFO | 9 (9) | 4 (4)** | - | - |
| Alan McWalter, SID | 9 (9) | 4 (4) | 2 (2) | 8 (8) |

*Christopher Humphrey advised the Company, before his appointment, his availability to attend pre-scheduled meetings.
**Attended by invitation

The Chairman met with the Non-executive Directors, without the Executive Directors present, during the financial year.

## Corporate Governance Highlights

**Board focus during the year**

The main focus of the Board's agenda is currently strategy, which reflects the fact that the Group is currently in a period of transformation. In the future, the agenda is expected to shift to having a balance of short-term trading focus and more long-term issues such as people development, branding, marketing and business planning.

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

- The CEO provided updates to the Board during the year on business performance, progress on divesting non-core businesses, investor engagement, business priorities and operations as well as corporate responsibility/compliance and key metrics.
- Reports were also provided to the Board by the CFO on the development of appropriate KPIs and progress against these measures and updates on the transformation project
- The Board received input from each of the Audit, Nominations and Remuneration Committees following Committee meetings. The Company Secretary also provided reports on corporate and regulatory updates and also routine corporate approvals. Updates on litigation and investigations were also provided.
- Updates were provided to the Board on tax, the Group's treasury position and approach to revenue recognition. In addition, updates were provided from the stockbrokers on the views of major shareholders, share price changes and dividend view. The Board also considered the results of the EU referendum and its potential impact on the Group.
- The Board reviewed the Annual Report and Financial Statements for 2015 and the Interim Results Statement, including the going concern review. Discussions were also held on the approach to viability under the Code requirements. In addition, the Board received reports from the external auditor.

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**

Led by the Chairman, a comprehensive induction programme is tailored for each new Director prior to their appointment to the Board. The programme is designed for each individual, taking account of their existing knowledge of the business, specific areas of expertise and proposed Committee appointments. For Christopher Humphrey, meetings were arranged with the Chairman, CEO and Senior Independent Director, as well as senior members of management to ensure he gained a thorough overview and understanding of the business.

On-going development opportunities for all Directors will be provided, as required. Any training will take account of an 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.

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. The Non-Executive Directors meet with the Chairman, from time to time, without the presence of the other Executive Director.

Chris Batterham has served for more than seventeen years as Non-Executive Director and under the Code is no longer considered to be independent. He will not seek re-election at April's AGM.

The Non-Executive Directors meet to review the performance of the Chairman. The performance of the other Executive Directors is appraised by the Chairman. The Chairman appraises the performance of the Non-Executive Directors, identifying any development opportunities or training needs.

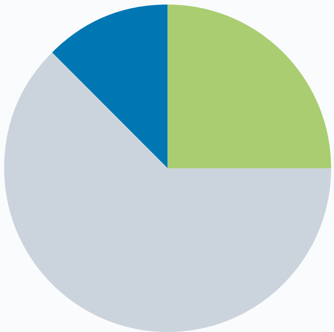
The Board, individual Directors and the Board's main Committees are reviewed annually, with this year's review being externally facilitated by Lintstock Limited. No issues arose that were required to be addressed but the Board's discussion of the review's output will help to shape the future development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

All Directors are supplied with information in an appropriate format. They each have access to the advice and services of the Company Secretary and are able to arrange for independent professional advice at the Company's expense where they judge it is necessary in order to discharge their responsibilities as Directors. In addition, a Directors' and Officers' Liability Insurance policy is maintained for all of our Directors and each Director has the benefit of a Deed of Indemnity.

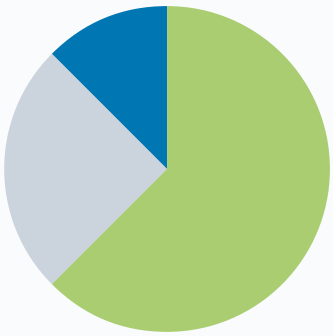
# Corporate Governance Report

## Diversity

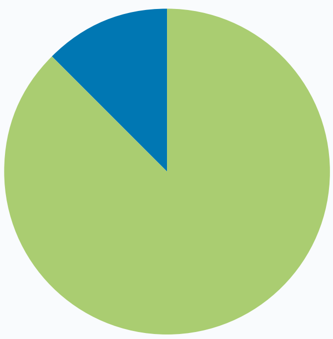
**Balance of Non-Executive Directors**




**Length of tenure**




**Male: Female**




**Composition and Succession**

Each Non-Executive Director is appointed for an initial three-year term but they are all subject to annual re-election by shareholders at the Annual General Meeting. Provided each Director is re-elected by shareholders every year, their appointment term may be extended. Details of each Non-Executive Director's term of appointment is set out in their letter of appointment, which are all available for inspection on request. Length of tenure is a key factor for the Board in determining whether a Non-Executive Director is regarded as independent. Taking into account all relevant factors as set out in the Code and notwithstanding Chris Batterham who has served more than nine years and will be stepping down from the Board at the AGM in 2017, all of our Non-Executive Directors are considered to be independent. This is apart from the Chairman who, in accordance with the Code, is not considered independent on an ongoing basis although he was considered to be independent on appointment.

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-Executive Directors and that the Directors collectively possess the skills and experience necessary, with no conflict of interest, to direct the Company and the Group's business activities.

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.

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 our investors**

The Board encourages and conducts constructive dialogue with institutional and private investors to enable clear communication of the Company's objectives and to understand what is important to shareholders.

**Institutional shareholders**

During the year, activities were undertaken to engage with our institutional shareholders:

- the Chairman, SID, Chairman of the Remuneration Committee, CEO and CFO held meetings throughout the year with institutional shareholders;
- investor roadshows were organised and conferences attended in the UK and North America;
- institutional shareholders were invited to attend the Company's full-year and half-year results roadshows; and
- other presentations were made to institutional investors and analysts to enable them to gain a greater understanding of important aspects of the Group's business

The outcome of all shareholder interactions are reported to the Board to ensure that all Non-executive Directors develop an understanding of the view of major shareholders. All Non-executive Directors are able to attend scheduled meetings with major shareholders.

# Audit Committee Report

Dear Shareholder,

I'm pleased to present the Audit Committee report for the year ended 31 December 2016.

**Composition and Governance**

The Audit Committee is comprised of four Non-Executive Directors all of whom are considered independent.

**Membership in 2016:**

Mandy Gradden – Chairman

Alan McWalter

Glenn Collinson

Christopher Humphrey (appointed on 8 June 2016)

I am a Chartered Accountant and currently serve as Chief Financial Officer of Ascential plc. The Board considers both myself and Christopher Humphrey, who is Chairman of the Audit Committee for Vitec Group plc and Aveva Group plc, to have relevant financial experience in accordance with the UK Corporate Governance Code. All of the Committee members have significant 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 Board evaluates the membership of the Committee on an annual basis.

The Chief Financial Officer, Chairman, Chief Executive Officer, senior representatives of the external auditor, KPMG, and other senior management for example, the Chief Transformation Officer, attend meetings by invitation.

As Chairman of the Committee, I report to the Board and meet with the external auditor, without executive management present to discuss matters relating to its remit and any issues relating to the audit. I also meet with the Chief Financial Officer and the external auditor outside of formal meetings to ensure that any areas for discussion are dealt with on a timely basis.

**Committee Meetings**

The Committee met four times during the year ended 31 December 2016. Dates and attendance are as follows:

| | Number of meetings eligible to attend | Number of meetings attended |
|---|---|---|
| Mandy Gradden – Chairman | 4 | 4 |
| Glenn Collinson | 4 | 4 |
| Christopher Humphrey | 3* | 3 |
| Alan McWalter | 4 | 4 |

*Christopher Humphrey joined the Committee on 8 June 2016.

**Mandy Gradden**

Audit Committee Chairman

7 March 2017

Since the end of the year, the Committee has met once (1 March 2017) 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 |
|---|---|
| 10 March 2016 | Annual results<br>• Significant accounting issues, key judgments & estimates, viability statement<br>• External auditor's report<br>• Review of preliminary results and draft announcement |
| | Draft Annual report |
| | Review of the Internal audit organisation |
| | Disclosure requirements of the Modern Slavery Act |
| 22 July 2016 | Interim results<br>• Significant accounting issues, key judgments & estimates<br>• External auditor's interim report<br>• Review of interim preliminary results and draft announcement |
| | Key Judgments |
| | Review of internal audit site visit findings |
| | Review of Effectiveness of External Audit |
| 15 September 2016 | External auditor Audit Strategy report |
| | Internal audit report |
| | Non-audit fees |
| | IFRS 15- Revenue Standard |
| | Committee's Terms of Reference |
| 2 November 2016 | Review of corporate structure |
| | Annual review of internal controls |
| | Treasury/Foreign exchange review |
| | Group Tax matters review with management |
| | Risk Review including Cyber/Information Security |
| 1 March 2017 | Annual results<br>• Significant accounting issues, key judgments & estimates, viability statement<br>• External auditor's report<br>• Review of preliminary results and draft announcement |
| | Draft Annual report |
| | Review of the future changes to accounting standards including IFRS15 |
| | Review proposed Modern Slavery Act statement |
| | Risk review |

## Meetings and Activities in 2016

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. 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 that 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.

# Audit Committee Report

As part of the formal annual Board evaluation, the Committee's effectiveness was subject to external review in 2016. 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 2016 accounts were:

**Carrying value of goodwill:**

This is an area of focus for the Committee given the materiality of the Group's goodwill balances (£146.7 million at 31 December 2016 (148.5 million at 31 December 2015)) and the inherent subjectivity in impairment testing.

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.

The Committee received detailed reporting including consideration of:

- the historical accuracy of management's forecasts
- benchmarking data supporting key assumptions e.g. revenue growth
- sensitivity analysis in relation to possible changes to key assumptions and their impact on valuation
- the overall group value in use calculation in comparison with the groups externally determined to market capitalisation
- the adequacy of the groups disclosures in respect of impairment testing including whether the disclosures properly reflect the risks inherent in the key assumptions and the requirements of relevant accounting standards.

See note 9 "Intangible assets" and note 11 "Impairment testing of goodwill" for further details.

**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.

The Committee has also received analysis from management on the introduction of the new revenue recognition standard (IFRS 15). The Committee has challenged the conclusions and reviewed the disclosure in the Financial Statements, summarising the impact of these changes for appropriateness.

**Internal control and risk management**

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

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 locations 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. In March 2017, the Committee concluded that the Group would be best served by having a dedicated internal audit function. This recommendation was accepted by the Board and the Committee will monitor the implementation of this in 2017 and beyond.

Tax risk reviews: received and considered presentations from management on the key drivers of the Group's effective tax rate, the status of the Group's tax compliance filings and on going tax enquiries and audits, the Group's principal tax risks and how these were being managed.

Foreign exchange review: received and considered presentations from management on the Group currency cash flows, net earnings exposures and mitigating controls. 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.

**External Auditor and Independence**

KPMG have been auditor 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 has concluded that the external audit process operated effectively throughout 2016 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. Accordingly, 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 auditor 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 auditor, however, may be engaged to provide permitted non-audit services where:

- The skills and experience of the auditor makes 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 2016, the Group has continued corporate rationalisation and the divestment of non-core operations. In each case, management considered which advisors were best placed to provide the most efficient and effective services to the Group.

The Committee acknowledges the EU and UK non-audit service restrictions which came into force from 1 January 2017 with the FRC Ethical Standard. Policies and procedures have been updated to ensure the Group remains compliant with these rules. Non audit services will be capped at 70% of the average fees paid in the last three consecutive financial years for the statutory audit.

During the year, the fees paid to the auditor were £483,000 (2015: £393,000) for audit services and £590,000 (2015: £621,000) for non-audit services.

# Nomination Committee Report

Dear Shareholder,

On behalf of the Board, I am pleased to present the Nomination Committee Report for the year ended 31 December 2016.

## Key Responsibilities

The Committee is responsible for:

- ensuring the appropriate balance of Directors on the Board as the Group develops to ensure that the business can compete in the marketplace;
- evaluating the balance of skills, knowledge, experience and diversity of the Board to ensure the optimum mix;
- considering succession planning for Directors and other senior managers to ensure that there is a pipeline of high calibre candidates; and
- identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Committee has terms of reference which are regularly reviewed and are published on the Group's website.

## Main Activities of the Committee

The Committee has met twice during the year during the year to 31 December 2016 and the matters considered at these meetings were:

**Recruitment**

Chief Executive Officer: Having been through a rigorous selection process, assisted by Spencer Stuart an executive search agency, the Committee recommended the appointment of Adolfo Hernandez for the role of CEO with a start date of 18 April 2016.

Non-Executive Director: As announced on 8 June 2016, Christopher Humphrey joined the Board as a Non-Executive Director. He serves on the Audit and Remuneration Committees.

**Board Composition**

The Committee agreed that there was considerable advantage to retaining Chris Batterham on the Board during this period of change. Although he had intended to stand down at the AGM in April 2016, Chris Batterham agreed to remain in place as a Non-Executive Director. He will not, however, seek re-election at the AGM in April 2017.

**Board Evaluation**

The Committee has made a thorough assessment of the Board of Directors based on: dialogue with the Chairman to understand in detail the balance of skills, knowledge, experience and diversity requirements; meetings with the largest shareholders; individual meetings with members of the Board; and an independent Board evaluation.

Based on this assessment the Committee recommended that all Board members, apart from Chris Batterham who does not seek re-election, stand for re-election at the April 2017 AGM. In all cases the Directors who were subject to election or re-election were not present and did not vote when proposals regarding their own position were discussed.

The Committee considered its own performance and terms of reference and concluded it continued to operate effectively.

## Membership and attendance in 2016

Alan McWalter – Chairman

David Clayton

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 2016**

| | Number of meetings eligible to attend | Number of meetings attended |
|---|---|---|
| Alan McWalter (independent non-executive director) – Chairman | 2 | 2 |
| David Clayton (Chairman of the Board) | 2 | 2 |
| Glenn Collinson (independent non-executive director) | 2 | 2 |

Since the end of the year the Committee has met once (1 March 2017) and all members attended.

**Alan McWalter**
Chairman of the Nomination Committee
7 March 2017

# Directors' Remuneration Report

This report covers the activities of the Remuneration Committee for the year ended 31 December 2016 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 99 to 106 was approved in a binding vote at the Annual General Meeting on 28 April 2016 at the same time as separate resolutions to approve a new Long Term Incentive Plan (LTIP) and a new Deferred Share Bonus Plan. The Remuneration Policy will continue to apply in 2017. The Annual Report on Remuneration (set out on pages 107 to 120) describes how this policy will be implemented in 2017, together with details of remuneration paid in the 2016 financial year. This report together with the Annual Statement will be subject to a single advisory shareholder vote at the 2017 AGM.

## Annual statement

Dear Shareholder,

I am pleased to present, on behalf of the Board, the Directors' Remuneration Report for the year ended 31 December 2016, which summarises the Group's performance and the resulting remuneration for the year.

**Board changes**

Following changes to the executive team in 2015, an extensive international search process was undertaken and the Company was pleased to announce the appointment of Adolfo Hernandez as Chief Executive on 18 April 2016. Mr Hernandez's base salary was set at £500,000 and, in line with the remuneration policy that was approved by shareholders later that month, he participated in the bonus plan (pro-rated) for the year and received an LTIP award upon joining.

David Clayton, who had held the position of Executive Chairman during the CEO transition period, reverted to the role of Non-Executive Chairman following a full handover of his executive role and responsibilities to Mr Hernandez.

Dominic Lavelle is the CFO and served throughout the whole year.

**Performance and remuneration for 2016**

2016 has been a positive year for SDL. We have begun investing in the transformation of our Language Services business after many years of underinvestment and our Language Technologies and Global Content Technologies businesses have both delivered material increases to profitability this year.

Because of the Group's overall positive performance, Executive Directors' bonuses have been paid for 2016. Full details of how these bonuses were calculated is set out on pages 110 to 114 of the Annual Report on Remuneration.

David Clayton's bonus was based on his position of Executive Chairman including during the CEO transition period up to 30 June 2016. After this date he reverted back to his previous position of Non-Executive Chairman and, in line with our Remuneration Policy for all non-executives, left the bonus plan. David Clayton's maximum bonus opportunity was 62.5% of his base salary, split 60% measured on company financial performance and 40% measured on a personal objective. The positive company financial performance versus the bonus plan financial targets resulted in a bonus pay out for the company financial performance element towards the upper end of the range. This element of the bonus was then time pro-rated by 50% to reflect the time served as executive chairman. The personal objective was predominantly to lead the search for and succeed in recruiting a new CEO of the right calibre and was fully achieved ahead of expectations so that the personal objective element of the bonus was paid in full. David Clayton's bonus was therefore £162,975, paid in cash.

Adolfo Hernandez's bonus was based on his position of CEO from April 2016 through the end of the year. His maximum bonus opportunity was 150% of his base salary. This maximum opportunity was split 60% measured on company financial performance and 40% measured on personal objectives. The higher weighting than typical on personal objectives reflected the Committee's desire for Mr Hernandez to focus on developing the Company's strategic priorities and achievement against them. As all executives were measured against the same company financial targets, the positive company financial performance also resulted in a financial element bonus pay out for Adolfo towards the upper end of the allowed range. The personal objectives were stretching and measureable as shown on page 111. Adolfo's performance was well ahead of expectations on all the objectives and therefore the personal objectives element of the bonus was paid in full. All of the bonus was then time pro-rated to reflect the time served as CEO. Adolfo Hernandez's bonus was therefore £472,312, paid in cash.

Dominic Lavelle's maximum bonus opportunity was 150% of his base salary. This maximum opportunity was split 87.5% measured on company financial performance and 12.5% measured on personal objectives. In line with the other executives, the positive company financial performance also resulted in a financial element bonus pay out for Dominic towards the upper end of the allowed range. The personal objectives were stretching and measureable as shown on page 112. Dominic's performance was very close to full expectations on all the objectives and therefore the personal objectives element of the bonus was paid at 95% of full opportunity. Dominic Lavelle's bonus was therefore £350,261. £310,000 of this was paid in cash and £40,261 deferred in shares for two years.

The Long Term Incentive Plan (LTIP) award granted on 17 April 2013 under the Rules of the LTIP reached the end of its performance period on 31 December 2015 and were subject to a Total Shareholder Return ("TSR") assessment and Earnings Per Share ("EPS") condition. As TSR performance was below the FTSE 250 index over the three year period and EPS was below threshold, this award lapsed.

Dominic Lavelle received 83,958 awards under the LTIP on 7 April 2014 and these were based on the same conditions as above, measured over the three year period ending 31 December 2016. The Company's TSR performance of 57% was above the maximum required (48%) and actual EPS of 26.35p was significantly ahead of the CPI + 3% p.a. target. Accordingly these awards will vest in full on 7 April 2017.

An award under the newly approved 2016 LTIP plan and consistent with the newly adopted Remuneration Policy was made during 2016 of 125% base salary for Dominic Lavelle and of 250% base salary upon joining for Adolfo Hernandez. Because David Clayton's position as Executive Chairman was not expected to be a long term one, he did not receive an LTIP award.

The Board is satisfied that the incentive outcomes are reflective of the Company's performance over the respective periods.

**Implementation of policy in 2017**

Adolfo Hernandez will not receive a salary increase in 2017. Dominic Lavelle will receive a salary increase of 3.2% in 2017 bringing his new base salary to £320,000. The average 2017 salary increase percentage for employees in the UK is 3.8%.

The maximum annual bonus will remain at 150% of salary for both Adolfo Hernandez and Dominc Lavelle.

# Directors' Remuneration Report

Adolfo Hernandez will receive an LTIP award equivalent to 250% base salary and Dominic Lavelle will receive an award equivalent to 125% base salary. The 2017 LTIP performance targets will be, as in 2016, 50% on EPS growth and 50% on relative Total Shareholder Return ("TSR"). The EPS performance target (for performance over three years to FY 2019) has been set at a threshold of 30p/share and a stretch goal of 42p / share. The relative TSR targets will continue to be 25% vesting at a threshold for TSR ranked at the median of the constituents of the FTSE Small Cap index excluding Investment trusts, rising on a straight line to 100% full vesting for TSR ranked at or above the upper quartile of the comparator group. A two-year holding period applies to vested LTIP awards.

David Clayton's fee as Non-Executive Chairman was reviewed during 2016 and was increased to £110,000 after 1 July 2016. A review was conducted during the year of all of the Non-Executive Directors' fees.

The Board is satisfied that the implementation in 2017 is consistent with the policy and provides a good balance between appropriately stretching targets and rewards.

**Shareholder views**

The Remuneration Committee was delighted that the 2016 Remuneration Policy received 99.95% support. This followed extensive consultation during Q4 2015 with a broad range of shareholders.

The advisory vote received the support of 73.3% of shareholders. On going discussions have revealed that the main reason for the dissenting votes was the use of Committee discretion in paying a cash bonus to the CFO in 2015, despite the 2015 bonus plan not paying out. 2015 was a time of exceptional change for the company with the Founder and CEO leaving abruptly in the fourth quarter of the year. The Remuneration Committee and the Board unanimously believe that in these particular circumstances the Remuneration Committee made the right decision by seeking to align the CFO's reward with the exceptional contribution he has made at a time of significant change and uncertainty at the Company. It did not take this decision lightly and considered the position over a number of meetings and consulted both shareholders, the Investment Association and Institutional Shareholder Services. The use of discretion in 2015 is not intended to create a precedent for future years, but was used to address a particular anomaly arising as a result of changes to the directorate.

The Committee understands the concerns raised and will continue to seek input on any material changes to the way we operate our new policy. I do hope you will be able to support the advisory vote on our remuneration report at the 2017 AGM.

**Glenn Collinson**
Remuneration Committee Chairman
7 March 2017

# 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 was 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 was approved in a binding shareholder vote at the AGM on 28 April 2016, taking effect from that date for a three year period. It has been repeated again in this report for clarity and transparency.

Details of how the Company intends to implement the Policy in 2017 are provided in the Annual Report on Remuneration section starting on page 107.

**Remuneration Policy objectives**

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 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.

# Remuneration Policy Report

| Element | Purpose and link to strategy | Operation |
|---|---|---|
| **Base salary** | Essential to recruit and retain executives of a high calibre.<br>Reflects an individual's experience, role and performance. | Salaries are paid monthly. They are reviewed annually and normally fixed for 12 months commencing 1 January.<br>In deciding appropriate levels, the Committee takes into account:<br>- The role, experience, responsibility and performance (individual and Group);<br>- increases applied to the broader workforce; and<br>- relevant market information for similar roles in broadly similar UK listed companies and companies of a similar size.<br>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).<br>The Committee considers the impact of any salary increase on the total remuneration package prior to awarding any increases. |
| **Benefits** | To provide competitive benefits to help recruit and retain executives. | **Benefits include:**<br>• Car or car allowance<br>• Private medical insurance<br>• Life assurance<br>• Health insurance<br>Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees.<br>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.<br>Executive Directors may be offered other benefits if considered appropriate and reasonable by the Committee. |
| **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. |
| **Annual bonus** | To motivate executives and incentivise the achievement of annual financial and/or strategic business targets.<br>To ensure further alignment with shareholders through the retention of deferred equity. | 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.<br>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.<br>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.<br>Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions in the event of financial misstatement, error or gross misconduct.<br>Participation in the bonus plan, and all bonus payments, are at the discretion of the Committee. |

| Maximum Opportunity | Framework Used to Assess Performance |
|---|---|
| There is no prescribed maximum.<br>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):<br>- where an individual is promoted or has been recruited on a below market rate,<br>- 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. | The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates. |
| There is no prescribed maximum as costs may vary in accordance with market conditions.<br>HMRC tax-approved limits will apply to all employee share schemes. | Not applicable |
| 12% of salary p.a. | Not applicable |
| The maximum award under the annual bonus scheme is 150% of salary. | 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.<br>Financial measures will represent the majority of bonus, with clearly defined non-financial targets representing the balance (if any).<br>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.<br>- Nothing is payable for performance below a minimum level of performance.<br>- 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.<br>- 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.<br>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.<br>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. |

# Remuneration Policy Report

| Element | Purpose and link to strategy | Operation |
|---|---|---|
| **2016 Long-Term Incentive Plan** | Incentivises selected employees and Executive Directors to achieve successful execution of business strategy over the longer term.<br>Provides long-term retention.<br>Aligns the interests of the Executives and shareholders. | 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.<br>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.<br>Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment.<br>Awards are subject to recovery and withholding provisions in the event of financial misstatement, error or gross misconduct.<br>A holding period will apply under which all participants are required to retain their net of tax vested awards for two years post vesting.<br>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. |
| **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. | 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.<br>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. |
| **Non-Executive Chairman and Non-Executive Directors' fees** | To attract and retain a high quality Chairman and experienced Non-Executive Directors. | 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.<br>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.<br>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.<br>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors. |
| **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. |

| Maximum Opportunity | Framework Used to Assess Performance |
|---|---|
| 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. | 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.<br>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.<br>Where EPS growth is used it will continue to be based on profit after share based payment charges to executives and employees are deducted.<br>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.<br>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.<br>Performance periods will normally start from the beginning of the financial year in which the award is made.<br>See Note 1. |
| Maximum award of 150% of salary | Performance period is 3 years.<br>TSR – must at least match that of the FTSE 250 index over the performance period.<br>EPS – must increase by at least inflation + 3% per annum during the performance period by reference to the Consumer Prices Index. |
| 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. |
| Not applicable | Not applicable |

**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.

# Remuneration Policy Report

## 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 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 2017 vary under three performance scenarios: below target, target and maximum.

**Assumptions:**

**Below Target:**

- Comprises fixed pay of 2017 basic salary, the value of benefits in 2016 and a 12% Company pension contribution.

**Target:**

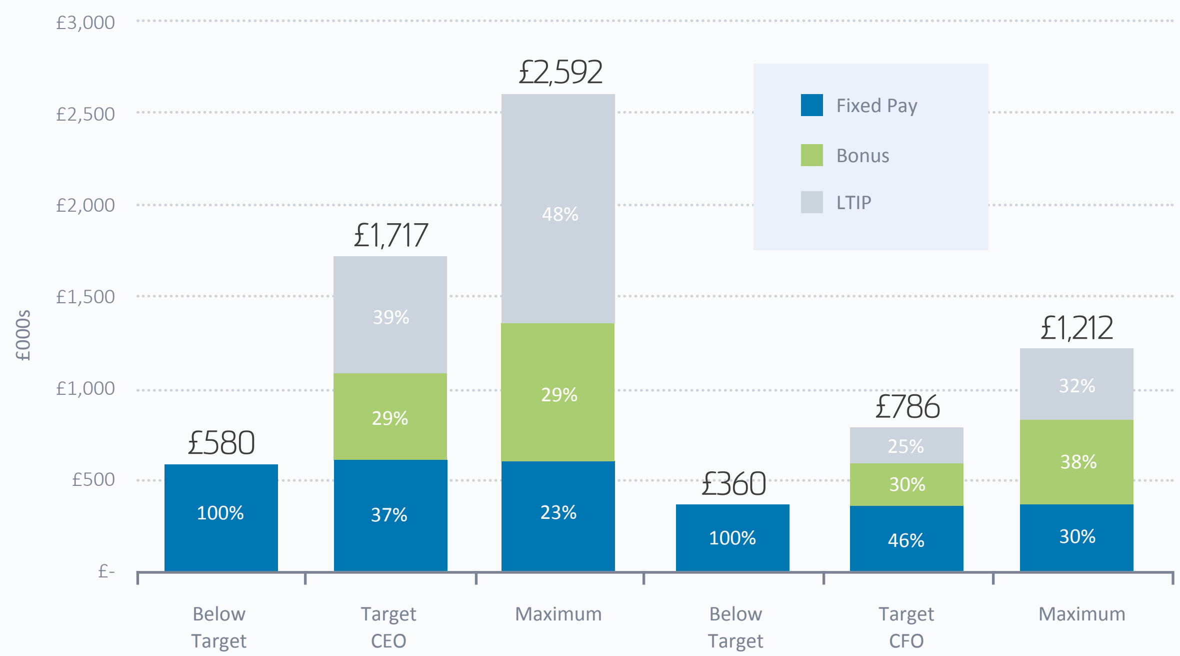
- Fixed pay as set out above
- Assumes bonus payout of 100% of salary for the CEO and 75% of salary for the CFO

Assumes 50% of the LTIP vests (assuming a 250% of salary grant for CEO and 125% of salary grant for CFO)

**Maximum:**

- Fixed pay
- Assumes maximum payout of bonus of 150% of salary and LTIP vesting of 250% of salary for CEO and 125% of salary for CFO.

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 was acting as interim Executive Chairman (during 2016), he was paid a salary and was eligible to participate in the annual bonus plan (subject to a 62.5% of salary maximum). He did not receive any pension or awards under the LTIP. He received a car allowance and remained 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 (months) |
|---|---|---|
| David Clayton | 1 July 2013 | 3 |
| Adolfo Hernandez | 18 April 2016 | 12 |
| Dominic Lavelle | 18 November 2013 | 12 |
| Chris Batterham | 15 October 1999 | 3 |
| Glenn Collinson | 1 June 2014 | 3 |
| Mandy Gradden | 30 January 2012 | 3 |
| Alan McWalter | 1 March 2014 | 3 |

# Remuneration Policy Report

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 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 be 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 2017 AGM.

The information below includes out how we intend to operate our revised policy in 2017 and the pay outcomes in respect of the 2016 financial year. The information, where indicated, from the Single total remuneration figures for Directors on page 109 has been audited.

# Implementation of Remuneration Policy in 2017

**Salaries**

| | 2016 | 2017 | % increase |
|---|---|---|---|
| CEO | £500,000 | £500,000 | 0% |
| CFO | £310,000 | £320,000 | 3.2% |

The average 2017 salary increase percentage for employees in the UK is 3.8%.

**Pension and Benefits**

The CEO and CFO will receive a company pension contribution of 12% of basic salary. Benefits will be provided in line with the approved remuneration policy.

**Annual bonus**

As described in the Policy Report, the maximum bonus opportunity for 2017 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 2017 are:

| | CEO | CFO |
|---|---|---|
| Adjusted profit before tax, amortisation and one-offs | 41.67% | 43.75% |
| Revenue | 41.67% | 43.75% |
| Personal objectives | 16.67% | 12.50% |

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**

For 2017, awards are made under the 2016 LTIP to senior executives in line with policy. The CEO's award will be over nil-cost options with a face value of 250% of salary 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.

# Annual Report on Remuneration

### EPS Growth

The awards will vest according to the following schedule:

| Adjusted, fully diluted EPS for FY2019 | Proportion of Awards subject to EPS growth that vest |
|---|---|
| Less than 30p in 2019 | 0% |
| 30p in 2019 | 25% |
| 42p or higher in 2019 | 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 ("TSR") performance over a measurement period running from 1 January 2017 to 31 December 2019.

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 | |

Awards granted since 2016, to the extent they vest, 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 2016 for the Executive and Non-Executive Directors.

| | | Fixed Pay | | | Pay for Performance | | | |
|---|---|---|---|---|---|---|---|---|
| | | Salary / Fees £000's | Benefits[a] £000's | Pension £000's | Annual Bonus £000's | LTIP £000's | Other £000's | Total Remuneration £000's |
| **Chairman** | | | | | | | | |
| David Clayton[b] | 2016 | 255.0 | 6.0 | - | 163.0 | - | - | 424.0 |
| | 2015 | 152.5 | 3.0 | - | - | - | - | 155.5 |
| **Executive Directors** | | | | | | | | |
| Adolfo Hernandez[c] | 2016 | 352.6 | 15.2 | 42.3 | 472.3 | - | - | 882.4 |
| | 2015 | - | - | - | - | - | - | - |
| Dominic Lavelle | 2016 | 310.0 | 12.6 | 37.2 | 350.3 | 365.7 | - | 1,075.8 |
| | 2015 | 287.5 | 12.7 | 34.5 | 100.0 | - | - | 434.7 |
| **Non–Executive Directors** | | | | | | | | |
| Chris Batterham | 2016 | 43.8 | - | - | - | - | - | 43.8 |
| | 2015 | 40.0 | - | - | - | - | - | 40.0 |
| Mandy Gradden | 2016 | 52.5 | - | - | - | - | - | 52.5 |
| | 2015 | 45.0 | - | - | - | - | - | 45.0 |
| Alan McWalter | 2016 | 54.8 | - | - | - | - | - | 54.8 |
| | 2015 | 45.0 | - | - | - | - | - | 45.0 |
| Glenn Collinson | 2016 | 54.8 | - | - | - | - | - | 54.8 |
| | 2015 | 45.0 | - | - | - | - | - | 45.0 |
| John Matthews* | 2016 | - | - | - | - | - | - | - |
| | 2015 | 12.0 | - | - | - | - | - | 12.0 |
| Christopher Humphrey | 2016 | 28.3 | - | - | - | - | - | 28.3 |

*consultant to the Board throughout 2015.

(a) Taxable benefits for the year included: Car allowance, private medical insurance, life assurance and health insurance.

(b) David Clayton's 2016 salary/fees are split as follows: As Executive Chairman (1 January to 30 June) £200,000; as Non-Executive Chairman (1 July to 31 December) £55,000.

(c) Adolfo Hernandez became CEO on 18 April 2016.

Annual Report on Remuneration

## 2016 Annual Bonus

Information not subject to audit

**Maximum bonus opportunity by each target as % of base salary**

The annual bonus for 2016 was based on a mix of company financial performance targets, split between Revenue achievement, PBTA achievement and personal objectives as follows:

| as % of salary | CEO | CFO | Executive Chairman |
|---|---|---|---|
| Profit before tax, amortisation and one-offs (PBTA) | 45% | 66.625% | 18.75% |
| Revenue | 45% | 66.625% | 18.75% |
| Personal objectives | 60% | 18.75% | 25% |
| **Total (% of salary)** | **150%** | **150%** | **62.5%** |

Performance versus each target as a percentage of maximum opportunity, time pro-rating and final bonus paid

**Chief Executive Officer**

**CEO BASE SALARY = £500,000 pa, MAXIMUM BONUS OPPORTUNITY = 150% of BASE SALARY**

| Bonus Plan Targets | | | | Bonus Achievement | | Annualised Bonus Accrued | Time Pro-Rating Factor (1) | Time Pro-Rated Bonus |
|---|---|---|---|---|---|---|---|---|
| | Gate | On-Target | Maximum | | | | | |
| Revenue £m | 232.75 | 245.0 | 270.0 | Revenue £m | 264.7 | | | |
| Bonus Payout % of maximum bonus | 2.50% | 13.3% | 30.0% | Bonus Payout % of maximum | 26.5% | £198,499 | 75% | £148,874 |
| PBTA £m | 25.0 | 26.0 | 30.0 | PBTA £m | 27.0 | | | |
| Bonus Payout % of maximum bonus | 0% | 13.3% | 30.0% | Bonus Payout % of maximum bonus | 17.5% | £131,250 | 75% | £98,438 |
| **Company Financial Targets, Bonus payout as % of maximum bonus** | **2.50%** | **26.7%** | **60.0%** | **Company Financial Targets, Bonus payout as % of maximum bonus** | **43.97%** | **£329,749** | **75%** | **£247,312** |
| **Personal Objectives, Bonus payout as % of maximum bonus** | **0%** | | **40.0%** | **Personal Objectives, Bonus payout as % of maximum bonus – see Objectives Score below** | **40.0%** | **£300,000** | **75%** | **£225,000** |
| **Total annual cash bonus paid in 2016** | | | | **84% of Max Opportunity =** | | | | **£472,312** |

(1) Adolfo Hernandez joined the company in April 2016 hence his bonus is time pro-rated by 75% for the 9 months served during the year.

Part of the above bonus calculation was based on meeting the personal objectives score as follows:

**Chief Executive (25% of salary)**

**Personal Objectives Score, CEO**

| Description | Measurement | Achievement Commentary | Weightings | Achieved Personal Objectives Score |
|---|---|---|---|---|
| 'Fast-start' to SDL: quickly meet, learn and get acquainted with SDL key people, locations, investors and customers. | Meet the top 10 shareholders within the first 120 days and visit our largest 10 offices around the world within the first 100 days. | Met top 10 shareholders within 30 days of starting. Visited Maidenhead, Sheffield, Wakefield, Boulder, San Jose, Hengelo, Stuttgart, Paris, Grenada, Tokyo, Shanghai, Beijing, and Seoul offices within first 80 days. | 20% | 20% |
| Complete, own and take SDL Strategy from OC&C to the Board to implementation with the Executive team. | Agree the strategic plan with the Board within the first 100 days. | Presented and agreed strategic plan with the Board 6 June, within 60 days of starting. | 20% | 20% |
| Drive SDL business, culture and operation transformation to implement strategy. | Agree and communicate executive structure to deliver strategy within the first 100 days. | Communicated strategy and new company structure on 1 July to the entire organisation. Reorganisation fully implemented by 1 September. | 20% | 20% |
| Hire, promote and move executives to build best in class executive team to deliver on the strategy. | Evaluate senior leadership team and supplement with external hires as required. At least 75% of the executive team to consist of existing executives. | New Executive Team put in place on 1 July. At inception eight out of 11 members were existing employees. | 20% | 20% |
| Build and deliver the 5 year transformational plan including the detailed 2017 Operational plan. | Deliver and obtain Board approval for 2017 Financial and Operating plan by 30 December 2016. | 2017 Financial and Operating plan presented to and approved by the Board on 1 December. This formed the basis of a successful capital markets day delivered on 6 December. | 20% | 20% |
| **Total** | | | **100%** | **100%** |

In light of the above performance, the Committee determined that a 100% achievement of personal objectives was reached and therefore a bonus of £300,000 before time pro-rating should become payable in respect of Mr Hernandez's personal performance over the year.

# Annual Report on Remuneration

### Chief Financial Officer

**CFO BASE SALARY = £310,000, MAXIMUM BONUS OPPORTUNITY = 150% of BASE SALARY**

| Bonus Plan Targets | | | | Bonus Achievement | | Bonus Paid |
|---|---|---|---|---|---|---|
| | Gate | On-Target | Maximum | | | |
| Revenue £m | 232.75 | 245.0 | 270.0 | Revenue £m | 264.7 | |
| Bonus Payout % of maximum bonus | 2.50% | 18.75% | 43.8% | Bonus Payout % of maximum | 38.44% | £178,792 |
| PBTA £m | 25.0 | 26.0 | 66.6 | PBTA £m | 27.0 | |
| Bonus Payout % of maximum bonus | 0% | 18.75% | 43.8% | Bonus Payout % of maximum bonus | 25.00% | £116,250 |
| **Company Financial Targets, Bonus payout as % of maximum bonus** | **2.50%** | **37.50%** | **87.50%** | **Company Financial Targets, Bonus payout as % of maximum bonus** | **63.45%** | **£295,042** |
| **Personal Objectives, Bonus payout as % of maximum bonus** | **0%** | | **12.50%** | **Personal Objectives, Bonus payout as % of maximum bonus – see Objectives Score below** | **11.88%** | **£55,219** |
| **Total annual cash bonus paid in 2016** | | | | **74.8% of Max Opportunity =** | | **£350,261** |

Part of the above bonus calculation was based on the personal objectives score as follows:

### Personal Objectives Score, CFO

| Description | Measurement | Achievement Commentary | Weightings | Achieved Personal Objectives Score |
|---|---|---|---|---|
| Develop and implement robust KPI's to manage SDL. | To be agreed and implemented by 30 December 2016 | Major KPIs announced at SDL Capital Markets Day, 6 December 2016; Full list of KPIs will be included in the 2016 annual report | 30% | 25.0% |
| Develop and implement new pricing policy. | To be agreed and implemented by 30 December 2016 | New pricing policy agreed with the leadership team and roll out well under way at year end | 20% | 15.0% |
| Ensure appropriate compliance policies are developed and implemented to professionally govern SDL. | To be agreed and implemented by 30 December 2016 | Complete review and re-issue of compliance and control policies completed on time | 20% | 25% |
| Build and deliver the 5 year transformational plan including the detailed 2017 Operational plan. | To be signed off by the board and executive team by 1 December 2016 | 2017 Financial and operating plan presented to and approved by the Board on 1 December. This formed the basis of a successful capital markets day delivered on 6 December | 30% | 30% |
| **Total** | | | **100%** | **95.0%** |

In light of the above performance, the Committee determined that a 95% achievement of personal objectives was reached and therefore a bonus of £55,219 should become payable in respect of Mr Lavelle's personal performance over the year.

**Executive Chairman**

**EXECUTIVE CHAIRMAN BASE SALARY = £400,000 pa, MAXIMUM BONUS OPPORTUNITY = 62.5% of BASE SALARY**

| Bonus Plan Targets | | | | Bonus Achievement | | Annualised Bonus Accrued | Time Pro-Rating Factor (1) | Time Pro-Rated Bonus |
|---|---|---|---|---|---|---|---|---|
| | Gate | On-Target | Maximum | | | | | |
| Revenue £m | 232.75 | 245.0 | 270.0 | Revenue £m | 264.7 | | | |
| Bonus Payout % of maximum bonus | 6.00% | 20.0% | 30.0% | Bonus Payout % of maximum | 27.9% | £69,700 | 50% | £34,850 |
| PBTA £m | 25.0 | 26.0 | 30.0 | PBTA £m | 27.0 | | | |
| Bonus Payout % of maximum bonus | 0% | 20.0% | 30.0% | Bonus Payout % of maximum bonus | 22.5% | £56,250 | 50% | £28,125 |
| **Company Financial Targets, Bonus payout as % of maximum bonus** | **6.00%** | **40.0%** | **60.0%** | **Company Financial Targets, Bonus payout as % of maximum bonus** | **50.4%** | **£125,950** | **50%** | **£62,975** |
| **Personal Objectives, Bonus payout as % of maximum bonus** | **0%** | | **40.0%** | **Personal Objectives, Bonus payout as % of maximum bonus – see Objectives Score below** | **40.0%** | **£100,000** | **100%** | **£100,000** |
| **Total annual cash bonus paid in 2016** | | | | **90.4% of Max Opportunity =** | | | | **£162,975** |

(2) David Clayton served as Executive Chairman during 2016 from the beginning of the year to the end of June 2016. This includes the three months transitional period after the new CEO joined in April 2016 to ensure operational continuity. Time pro-rating of 50% is applied to financial element of bonus. In line with the intended operation of the bonus arrangements for Mr Clayton, time pro-rating was not applied to the personal objective part of the bonus: As the objective was to recruit a new CEO and therefore to end tenure as Executive Chairman, to do so would have potentially created the wrong incentive to delay the recruitment of the new CEO in order to maximise bonus.

Part of the above bonus calculation was based on the personal objectives score as follows:

**Personal Objectives Score, Executive Chairman**

| Description | Measurement | Achievement Commentary | Weightings | Achieved Personal Objectives Score |
|---|---|---|---|---|
| Full time commitment to complete the operational review and follow up action plan whilst leading the permanent CEO search with the expectation that the right CEO is in place by the end of 2016. | Operational changes announced before the end of H1 2016 and the new CEO on-board before the end of 2016 | Operational review completed ahead of schedule and announcement made on 20 January 2016 that the sale process will begin on the Social Intelligence, Campaigns and SDL Fredhopper businesses. New CEO recruited ahead of schedule: announcement on 23rd March 2016 that the new CEO will commence on 18th April 2016 | 100% | 100% |
| **Total** | | | **100%** | **100%** |

In light of the above performance, the Committee determined that 100% achievement of personal objectives was reached and therefore a bonus of £100,000 of salary should become payable in respect of Mr Clayton's personal performance over the year.

# Annual Report on Remuneration

### Summary of bonuses paid including those deferred under the Annual Bonus Deferral Plan

The overall bonus outcomes for each director are shown below:

| | Actual bonus payable for 2016 (% of salary) | Actual cash bonus payable for 2016 (£000) | Actual bonus deferred in shares for 2016 (£000) |
|---|---|---|---|
| Adolfo Hernandez | 126.1% | 472.3 | 0.0 |
| Dominic Lavelle | 113.1% | 310.0 | 40.3 |
| David Clayton | 81.5% | 163.0 | 0.0 |

### 2016 LTIP granted in the year

| | Basis of award granted | Shares awarded | Face value of award £000's | Maximum vesting | Percentage vesting for threshold performance | Vesting period |
|---|---|---|---|---|---|---|
| Adolfo Hernandez | 250% of salary | 298,329 | 1,250 | 100% | 25% | Performance measured over the three financial years ending 31 December 2018. |
| Dominic Lavelle | 125% of salary | 92,482 | 388 | 100% | 25% | Awards will vest on the third anniversary of grant subject to continued employment |

Awards were granted on 8 June 2016 and will vest subject to a relative TSR measure against the constituents of the FTSE SmallCap Index (excluding investment trusts) and EPS growth targets each with an equal weighting. These targets will be assessed independently of each other. The performance period for the award is the three financial years ending December 2018.

- TSR (50%) – No part of this award vests if performance is below the median of the comparator group, 25 per cent vests for achieving performance at the median, with 100 per cent vesting for TSR ranking at or above the upper quartile of the comparator group with straight line vesting in between.
- EPS (50%) – If EPS as disclosed in the Company's accounts for FY 2018 is less then 27p, no part of this award vests, 25 per cent vests for EPS of 27p, with 100 per cent vesting for EPS of 39p or higher, with straight line vesting in between.

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.

**2013 and 2014 LTIP vesting**

The 2013 and 2014 LTIP awards were subject to TSR and EPS performance conditions. In order for an award to vest, both criteria need to have been achieved. The TSR condition requires SDL's 3-year TSR performance to be equal to the FTSE 250 index for 25% of the award to vest and 200% of the index return for full vesting. In addition, EPS in the third year of the performance period must be equal to or greater than CPI + 3%p.a. over the EPS for the financial year prior to grant.

The performance targets for the 2013 award which was based on a performance period over the three year period ending 31 December 2016 were not achieved and therefore this award lapsed.

However, the award granted on 7 April 2014 will vest in full on its third anniversary as the performance criteria have been met:

| TSR measure | Performance | Level of vesting |
|---|---|---|
| FTSE 250 index return | 24% | 25% |
| Maximum- Out performance of Index by 100% | 48% | 100% |
| SDL actual performance | 57% | 100% |

The average annual EPS growth comparing 2016 EPS with 2013 was 312% which significantly ahead of the CPI + 3%p.a. requirement.

For reporting purposes, as the vesting date is after this report is being signed off, Dominic Lavelle's LTIP value in the single figure table is based on the average share price over the last three months of the 2016 financial year (435.54 pence).

| 2014 LTIP vesting – Dominic Lavelle | 7 April 2014 | % vesting | Number of awards vesting | Value of awards vesting (000s) |
|---|---|---|---|---|
| Number of awards | 83,958 | 100% | 83,958 | £365.7 |

# Annual Report on Remuneration

**Information subject to audit**

**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 2016 | Granted during year | Lapsed during year | Vested and exercised during year | As at 31 Dec 2016 | Earliest date shares can be acquired | Latest date shares can be acquired |
|---|---|---|---|---|---|---|---|---|---|
| Adolfo Hernandez | 8 Jun 2016 (b) | 419 | - | 298,329 | - | - | 298,329 | 8 Jun 2021 | 8 Jun 2026 |
| Dominic Lavelle | 17 Apr 2014 (a) | 333.5 | 83,958 | - | - | - | 83,958 | 7 Apr 2017 | 7 Apr 2024 |
| | 17 Apr 2015 (a) | 444.75 | 62,957 | - | - | - | 62,957 | 17 Apr 2018 | 17 Apr 2025 |
| | 8 Jun 2016 (b) | 419 | - | 92,482 | - | - | 92,482 | 8 Jun 2021 | 8 Jun 2026 |

(a) The 2014 and 2015 awards will vest subject to a relative TSR measure 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 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 awards will lapse.

As set out on page 115, the TSR and EPS criteria attached to the 7 April 2014 awards were met in full and therefore these will vest on 7 April 2017.

(b) Awards granted on 8 June 2016 will vest subject to a relative TSR measure against the constituents of the FTSE SmallCap Index (excluding investment trusts) and EPS growth targets. These targets will be assessed independently of each other. The performance period for the award is the three financial years ending December 2018.

- TSR – No part of this award vests if performance is below the median of the comparator group, 25 per cent vests for achieving performance at the median, with 100 per cent vesting for TSR ranking at or above the upper quartile of the comparator group with straight line vesting in between.
- EPS – If EPS as disclosed in the Company's accounts for FY 2018 is less then 27p, no part of this award vests, 25 per cent vests for EPS of 27p, with 100 per cent vesting for EPS of 39p or higher, with straight line vesting in between.

Awards granted since 2016 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.

### Information subject to audit

#### Directors' interest in shares

Executive Directors are subject to a share ownership guideline. Executive Directors are expected 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 Directors are required 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 2016 are set out below.

| Name of director | Owned | | LTIP awards | | SAYE | | Total | % of salary held under Shareholding Policy |
|---|---|---|---|---|---|---|---|---|
| | 31.12.15 | 31.12.16 | Unvested | Vested | Unvested | Vested | 31.12.16 | 31.12.16 |
| Executive Directors | | | | | | | | |
| Adolfo Hernandez | - | 50,000 | 298,329 | - | - | - | 348,329 | 44% |
| Dominic Lavelle | 30,000 | 45,000 | 239,397 | - | - | - | 284,397 | 64% |
| Chairman | | | | | | | | |
| David Clayton | 113,950 | 113,950 | - | - | - | - | 113,950 | n/a |
| Non-Executive Directors | | | | | | | | |
| Glenn Collinson | - | 12,000 | - | - | - | - | 12,000 | n/a |
| Mandy Gradden | 7,500 | 7,500 | - | - | - | - | 7,500 | n/a |
| Alan McWalter | - | - | - | - | - | - | - | n/a |
| Christopher Humphrey | - | 15,000 | - | - | - | - | 15,000 | n/a |
| Chris Batterham | 100,000 | 100,000 | - | - | - | - | 100,000 | n/a |

There has been no change in the interests set out above between 31 December 2016 and 7 March 2017.

Figures above have been calculated using the share price as at 31 December 2016, 442.75p. In assessing compliance against the share ownership guideline, the Committee looks at the value of the shareholding at the year end and may take into account the price at the time shares have been purchased or acquired.

During the year, Adolfo Hernandez purchased, through connected persons, 50,000 shares at a price of 435 pence and Dominic Lavelle purchased 15,000 shares at an average price of 418.9 pence.

### Information not subject to audit

#### Relative importance of spend on pay

The following table sets out the percentage change in dividends and overall spend of employee pay in the 2016 financial year compared with the prior year.

| | 2016 £m | 2015 £m | % change |
|---|---|---|---|
| Dividends | 2.5 | 2.0 | 25.0 |
| Total return to shareholders | 2.5 | 2.0 | 25.0 |
| Employee remuneration costs | 156.5 | 145.0 | 7.9 |

# Annual Report on Remuneration

### Percentage change in CEO pay

The table below 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.

| | 2016 | 2015 | % change |
|---|---|---|---|
| Chief Executive (£000s) | | | |
| • Salary | *552.6 | **519.7 | +6.3 |
| • Benefits | 63.5 | 35.2 | +80.4 |
| • Bonus | 635.3 | - | n/a |
| Full time equivalent average UK employee (£)(1) | | | |
| • Salary | 51.9 | 49.2 | +5.5 |
| • Benefits | 1.9 | 1.7 | +11.8 |
| • Bonus | 10.3 | 10.0 | +3.0 |

* Adolfo Hernandez and David Clayton, **Mark Lancaster and David Clayton

(1) There are 408 UK employees at 31 December 2016 (31 December 2015:515), of which 26 (2015: 26) were part time.

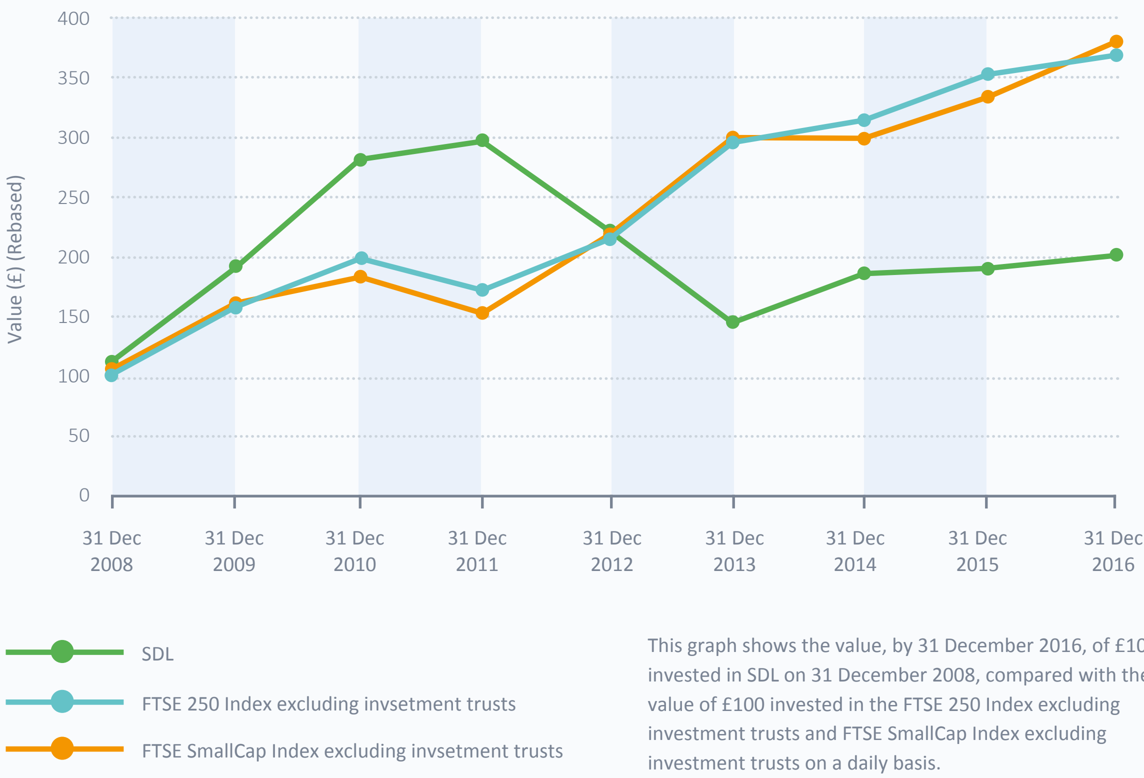
Information not subject to audit

### Performance graph and single figure history

The following graph shows the Company's TSR performance over the last eight 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: Datastream (Thomson Reuters)




This graph shows the value, by 31 December 2016, 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 SmallCap Index excluding investment trusts on a daily basis.

The table below shows the total remuneration figure for the CEO and Executive Chairmen roles over the same eight 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[2] | 2016[2] |
|---|---|---|---|---|---|---|---|---|
| CEO single total figure of remuneration (£000's) | 914 | 954 | 1,200 | 729 | 597 | 1,285 | 1,911 | 1,252 |
| Bonus payout (%) | 40 | 44 | 47 | 24 | - | 53 | - | 84 |
| LTIP vesting (%) | 100 | 100 | 100 | 71.5 | - | - | [1]2013 = 0%<br>2014 = 46%<br>2015 = 21% | n/a |

1 Vesting percentages of Mark Lancaster's outstanding LTIP awards at time of resignation.

2 The 2015 and 2016 figures include the values of the Executive Chairman's single figure of remuneration.

### 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 are Mandy Gradden, Alan McWalter and Christopher Humphrey.

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 nine 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 ('LTIP'). The meetings also approved the payment of the 2015 performance related bonus, dealt with the vesting of the shares awarded in 2013 under the LTIP scheme and agreed the arrangements for the incoming CEO.

The Committee also receives advice from several sources, namely:

- The 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 Chief Executive attended the meetings upon invitation. No Executive Director takes part in discussions relating to their own remuneration and benefits.

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. During the year, total fees charged were £50,767 and this covered advice on the new remuneration policy and assistance with shareholder engagements, the recruitment terms of the new Chief Executive, ad hoc advice on the treatment of incentives, a market update to the Committee on remuneration and governance trends, assistance with drafting the remuneration report and policy and commentary on legal drafting.

# Annual Report on Remuneration

### 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:

**2016 Remuneration Policy**

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 65,354,576 | 99.95 |
| Against | 29,581 | 0.05 |
| Abstentions | 38,147 | n/a |
| **Total** | **65,422,304** | |

**Approval of new LTIP**

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 64,963,990 | 99.30 |
| Against | 458,314 | 0.7 |
| Abstentions | 0 | n/a |
| **Total** | **65,422,304** | |

**Approval of new Deferred Share Bonus Plan**

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 65,405,808 | 99.97 |
| Against | 16,496 | 0.03 |
| Abstentions | 0 | n/a |
| **Total** | **65,422,304** | |

**Annual Report on Remuneration**

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 47,325,499 | 73.30 |
| Against | 17,239,431 | 26.70 |
| Abstentions | 857,374 | n/a |
| **Total** | **65,422,304** | |

The Board noted that Resolution 3 to approve the remuneration report received 26.7% of votes cast against it (17,239,431 votes). The key issue brought to the Board's attention was the use of discretion exercised when determining the bonus paid to the CFO in 2015.

The Chairman of the Remuneration Committee together with the Chairman of the Board and the Senior Independent Director undertook an extensive engagement programme with shareholders ahead of the Annual General Meeting, contacting the holders of around half our shares and the main proxy voting agencies.

While a large majority of shareholders were supportive of the Remuneration Committee's use of discretion, the Committee is conscious of the minority who voted against the report. The Remuneration Committee and the Board unanimously believe that in these particular circumstances the Remuneration Committee made the right decision by seeking to align the CFO's reward with the exceptional contribution he has made at a time of significant change and uncertainty at the Company. It did not take this decision lightly and considered the position over a number of meetings. The use of discretion in 2015 is not intended to create a precedent for future years, but was used to address a particular anomaly arising as a result of changes to the directorate.

**On behalf of the Board**

Glenn Collinson
Remuneration Committee Chairman
7 March 2017

# 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
7 March 2017

# Financial Statements

KPMG

# 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 2016 set out on pages 129 to 176. 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 2016 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.

| Overview | | |
|---|---|---|
| **Materiality:** group financial statements as a whole | £1 million (2015:£0.75 million)<br>4.6% (2015: 3.9%) of continuing profit before tax and one-off items | |
| **Coverage** | 87% (2015: 77%) of absolute loss before tax* | |
| **Risks of material misstatement** | | **vs 2015** |
| **Recurring risks** | Impairment of goodwill and intangibles | ◀▶ |
| | Technology revenue | ◀▶ |

* This is the total profits and losses as a percentage of the total profits and losses that made up Group loss before tax

## 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, in decreasing order of audit significance, were as follows (unchanged from 2015):

| | The risk | Our response |
|---|---|---|
| **Impairment of goodwill and intangibles**<br><br>(£151.9 million carrying value; 2015: £163.1 million carrying value and impairment charge £33.3 million)<br><br>*Refer to page 92 (Audit Committee Report), page 134 (accounting policy) and page 156 (financial disclosures).* | **Forecast-based valuation**<br><br>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. Goodwill and intangibles are assessed for impairment using a discounted cash flow model to calculate value in use (VIU). 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 procedures included:**<br><br>**– Control design and assessing methodology**<br><br>We utilised our internal valuation specialists to assist in this area. Our procedures included assessing the budgeting process upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow model;<br><br>**– Benchmarking assumptions**<br><br>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, we compared the input assumptions to internally and where appropriate, externally derived data;<br><br>**– Sensitivity analysis**<br><br>Performing sensitivity analysis which considered reasonably possible changes in assumptions and their impact on the valuation;<br><br>**– Historical comparisons**<br><br>Considering the historical accuracy of the Directors' forecasts;<br><br>**– Comparing valuations**<br><br>Challenging the appropriateness of the Group's assumptions compared to potentially different assumptions used by investors, by comparing the value in use to the Group's market capitalisation; and<br><br>**– Assessing transparency**<br><br>Assessing 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 meet the requirements of relevant accounting standards. |

## 2. Our assessment of risks of material misstatement (continued)

| | The risk | Our response |
|---|---|---|
| **Technology revenue**<br><br>(£26.7 million; 2015: £22.8 million)<br><br>*Refer to page 92 (Audit Committee Report), page 135 (accounting policy) and page 142 (financial disclosures).* | **Subjective estimate**<br><br>Technology revenue includes licensed software and related services in the Language Technologies, Global Content Technologies and Non-Core operating segments.<br><br>Technology revenue recognition is considered a significant audit risk as there can be 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.<br><br>This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. | **Our procedures included:**<br><br>**– Our sector experience**<br><br>We inspected those contracts contributing the highest levels of licence revenue, and critically assessed the fair value of undelivered elements, such as professional services outstanding or upgrades or future changes to products, to determine the potential impact on revenue recognition;<br><br>**– Tests of details**<br><br>We considered the appropriateness of the Directors' judgements in determining the fair value of each element of the selected contracts by reference to standalone selling prices, day rates for consultancy and training, support and maintenance rates and renewal rates;<br><br>We agreed elements of the selected contracts that have been delivered to proof of delivery;<br><br>**– Assessing methodology**<br><br>We considered the appropriateness of the Group's accounting policies compared to the relevant accounting standards and the consistent application of those policies; and<br><br>**– Assessing transparency**<br><br>We also assessed the adequacy of the Group's disclosures in respect of Technology licence revenue as a significant judgement. |

## 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 £1 million (2015: £0.75 million), determined with reference to a benchmark of Continuing profit before tax and one-off items (as disclosed in note 4), resulting in a profit of £21.8 million, of which it represents approximately 5% (2015: approximately 5% of Group profit before tax and one-off items).

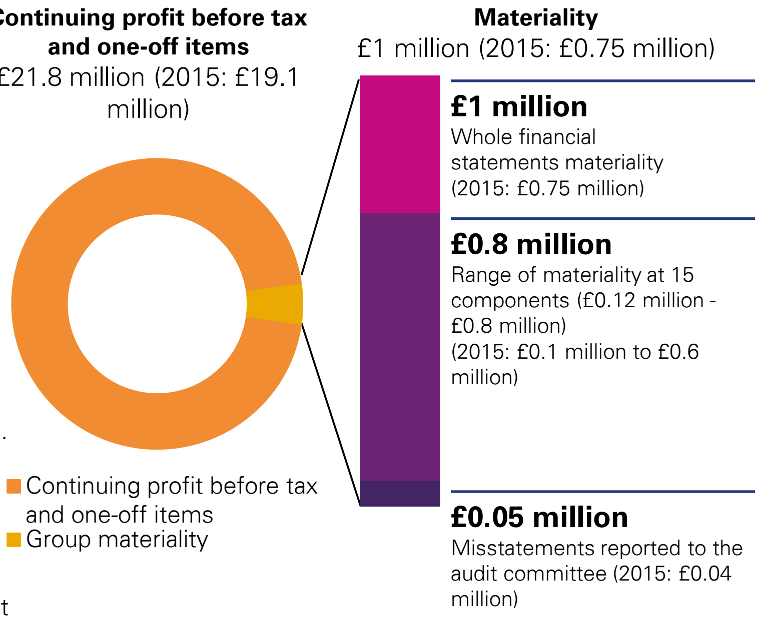
We reported to the Audit Committee all adjusted and unadjusted identified misstatements exceeding £0.05 million (2015: £0.04 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

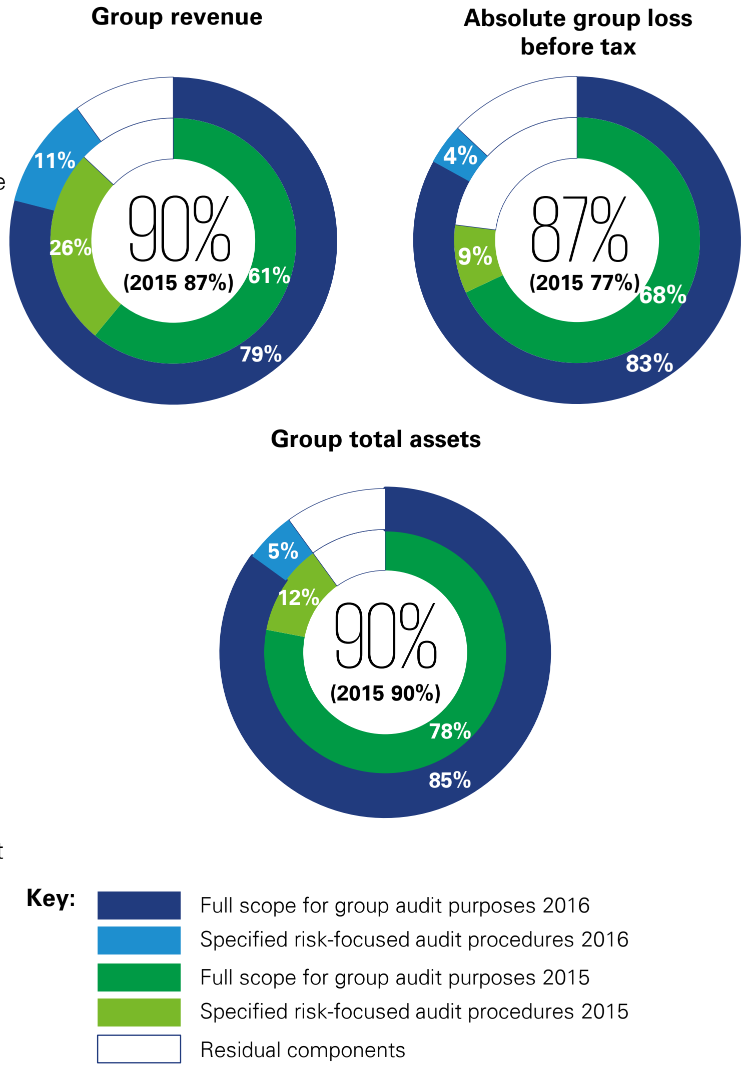
Of the Group's 71 (2015: 76) reporting components, we subjected ten (2015: nine) to audits for group reporting purposes and five (2015: nine) to specified risk-focused audit procedures, including over revenue, deferred income, accrued income, debtors, cash, accruals and payroll. The latter were not individually 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 total group revenue, group profit before taxation and group assets as indicated in the charts opposite.

The remaining 10% of total Group revenue, 13% of absolute Group loss before tax and 10% of total Group assets is represented by 56 reporting components, none of which individually represented more than 3% of total Group revenue, absolute 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 £0.1 million to £0.8 million (2015: £0.1 million to £0.6 million), having regard to the mix of size and risk profile of the Group across the components. The work on seven of the 15 components (10 audits and 5 specified procedures) (2015: 14 of the 18 components) was performed by component auditors and the rest by the Group team. The Group team performed procedures on items excluded from continuing profit before tax and on one-off items.

The Group audit team visited nine components in the US, UK and The Netherlands (2015: ten components in the UK, US and The Netherlands), including to assess the audit risk and strategy. 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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### 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' statement of viability on page 65, 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 31 December 2019; 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 pages 81 and 65, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 85 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 121, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Simon Haydn-Jones (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*

15 Canada Square

London

E14 5GL

7 March 2017

# Consolidated Income Statement for the Year Ended 31 December 2016

| | Notes | 2016 Continuing £m | 2016 Dis-continued £m | Total £m | 2015 Continuing £m | 2015 Dis-continued £m | Total £m |
|---|---|---|---|---|---|---|---|
| Sale of goods | | 23.3 | 17.1 | 40.4 | 32.7 | 17.8 | 50.5 |
| Rendering of services | | 241.4 | 8.1 | 249.5 | 207.7 | 8.7 | 216.4 |
| REVENUE | 3 | 264.7 | 25.2 | 289.9 | 240.4 | 26.5 | 266.9 |
| Cost of sales | | (120.7) | (10.8) | (131.5) | (106.0) | (10.9) | (116.9) |
| GROSS PROFIT | | 144.0 | 14.4 | 158.4 | 134.4 | 15.6 | 150.0 |
| Administrative expenses | 4 | (133.0) | (20.2) | (153.2) | (137.2) | (37.9) | (175.1) |
| OPERATING PROFIT/(LOSS) | | 11.0 | (5.8) | 5.2 | (2.8) | (22.3) | (25.1) |
| OPERATING PROFIT/(LOSS) BEFORE TAX, AMORTISATION AND ONE-OFF ITEMS | | 27.0 | (3.5) | 23.5 | 24.3 | (3.6) | 20.7 |
| Amortisation of intangible assets | 4 | (5.2) | - | (5.2) | (5.1) | (1.6) | (6.7) |
| One-off items | 4 | (10.8) | (2.3) | (13.1) | (22.0) | (17.1) | (39.1) |
| OPERATING PROFIT/(LOSS) | 4 | 11.0 | (5.8) | 5.2 | (2.8) | (22.3) | (25.1) |
| Loss on disposal of non core business | | - | (21.0) | (21.0) | - | - | - |
| Finance cost | 4 | - | - | - | (0.1) | - | (0.1) |
| PROFIT/(LOSS) BEFORE TAX | | 11.0 | (26.8) | (15.8) | (2.9) | (22.3) | (25.2) |
| PROFIT/(LOSS) BEFORE TAX, AMORTISATION AND ONE-OFF ITEMS | | 27.0 | (24.5) | 2.5 | 24.2 | (3.6) | 20.6 |
| Amortisation of intangible assets | | (5.2) | - | (5.2) | (5.1) | (1.6) | (6.7) |
| One-off items | 4 | (10.8) | (2.3) | (13.1) | (22.0) | (17.1) | (39.1) |
| PROFIT/(LOSS) BEFORE TAX | 4 | 11.0 | (26.8) | (15.8) | (2.9) | (22.3) | (25.2) |
| Tax expense | 5 | (2.7) | 0.4 | (2.3) | (5.3) | (0.2) | (5.5) |
| PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | 8.3 | (26.4) | (18.1) | (8.2) | (22.5) | (30.7) |
| Earnings per ordinary share – basic (pence) | 7 | 10.18 | (32.47) | (22.29) | (10.17) | (27.75) | (37.93) |
| Earnings per ordinary share – diluted (pence) | 7 | 10.08 | (32.16) | (22.08) | (10.17) | (27.75) | (37.93) |

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

# Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| Loss for the period | | (18.1) | (30.7) |
| Currency translation differences on foreign operations | | 21.7 | (6.3) |
| Currency translation differences on foreign currency quasi equity loans to foreign subsidiaries | | (0.5) | 2.5 |
| Income tax charge on currency translation differences on foreign currency quasi equity loans to foreign subsidiaries | 5 | (0.2) | (0.7) |
| OTHER COMPREHENSIVE INCOME | | 21.0 | (4.5) |
| TOTAL COMPREHENSIVE INCOME | | 2.9 | (35.2) |

All the total comprehensive income is attributable to equity holders of the parent Company. Currency translation differences on foreign operations 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 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 8 | 5.3 | 6.3 |
| Intangible assets | 9 | 151.9 | 163.1 |
| Deferred tax asset | 5 | 8.4 | 6.0 |
| Rent and other deposits | | 2.0 | 1.6 |
| | | 167.6 | 177.0 |
| CURRENT ASSETS | | | |
| Trade and other receivables | 12 | 81.0 | 73.4 |
| Corporation tax | | 0.9 | 2.8 |
| Cash and cash equivalents | 13 | 21.3 | 17.2 |
| Assets held for sale | | 7.1 | - |
| | | 110.3 | 93.4 |
| TOTAL ASSETS | | 277.9 | 270.4 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | (88.5) | (81.7) |
| Current tax liabilities | | (7.4) | (9.4) |
| Provisions | 17 | (1.1) | (2.9) |
| Liabilities held for sale | | (7.4) | - |
| | | (104.4) | (94.0) |
| NON CURRENT LIABILITIES | | | |
| Other payables | 15 | (1.6) | (1.4) |
| Loans and overdraft | 16 | - | (4.6) |
| Deferred tax liability | 5 | (1.1) | (3.1) |
| Provisions | 17 | (2.1) | (0.4) |
| | | (4.8) | (9.5) |
| TOTAL LIABILITIES | | (109.2) | (103.5) |
| NET ASSETS | | 168.7 | 166.9 |
| EQUITY | | | |
| Share capital | 18 | 0.8 | 0.8 |
| Share premium account | | 99.2 | 98.5 |
| Retained earnings | | 39.7 | 59.6 |
| Foreign exchange differences | | 29.0 | 8.0 |
| TOTAL EQUITY | | 168.7 | 166.9 |

Approved by the Board of Directors on 7 March 2017

A. Hernandez
Director

D. Lavelle
Director

# Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

| | Share Capital £m | Share Premium Account £m | Retained Earnings £m | Foreign Exchange Differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2015 | 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 |
| At 31 December 2015 | 0.8 | 98.5 | 59.6 | 8.0 | 166.9 |

| | Share Capital £m | Share Premium Account £m | Retained Earnings £m | Foreign Exchange Differences £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2016 | 0.8 | 98.5 | 59.6 | 8.0 | 166.9 |
| Loss for the period | - | - | (18.1) | - | (18.1) |
| Other comprehensive income | - | - | - | 21.0 | 21.0 |
| Total comprehensive income | - | - | (18.1) | 21.0 | 2.9 |
| Deferred income taxation on share based payments* (Note 5) | - | - | (0.2) | - | (0.2) |
| Arising on share issues* | - | 0.7 | - | - | 0.7 |
| Dividend paid* | - | - | (2.5) | - | (2.5) |
| Share based payments* | - | - | 0.9 | - | 0.9 |
| At 31 December 2016 | 0.8 | 99.2 | 39.7 | 29.0 | 168.7 |

* 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 for the Year Ended 31 December 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| LOSS FOR THE YEAR | | (18.1) | (30.7) |
| Tax expense | | 2.3 | 5.5 |
| LOSS BEFORE TAX | | (15.8) | (25.2) |
| | | | |
| Depreciation of property, plant and equipment | 8 | 3.5 | 3.6 |
| Amortisation of intangible assets | 9 | 5.2 | 6.7 |
| Impairment losses on intangible assets | | - | 33.3 |
| Loss on disposal of discontinued operations | | 21.0 | - |
| Finance costs | | - | 0.1 |
| Share based payments | | 0.9 | 1.3 |
| Increase in trade and other receivables | | (11.8) | (3.9) |
| Increase/(decrease) in trade and other payables | | 17.4 | (1.4) |
| Foreign exchange gains | | (1.8) | (2.5) |
| CASH GENERATED FROM OPERATIONS | | 18.6 | 12.0 |
| Income tax paid | | (6.5) | (5.8) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 12.1 | 6.2 |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments to acquire property, plant & equipment | | (2.3) | (2.7) |
| Receipts from sale of property, plant & equipment | | - | 0.1 |
| Payments to acquire intellectual property and subsidiaries | | - | (0.3) |
| Payments on disposal of discontinued operations | 3 | (1.6) | - |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (3.9) | (2.9) |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net proceeds from issue of ordinary share capital | | 0.7 | 0.2 |
| Proceeds from borrowings | | - | 4.6 |
| Repayment of borrowings | | (4.8) | (9.0) |
| Dividends paid | | (2.5) | (2.0) |
| Repayment of capital leases | | - | (0.4) |
| Interest paid | | (0.1) | (0.1) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | (6.7) | (6.7) |
| | | | |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 1.5 | (3.4) |
| | | | |
| Cash and cash equivalents at the start of year | | 17.2 | 22.1 |
| Increase/(decrease) in cash and cash equivalents | | 1.5 | (3.4) |
| Effect of exchange rates on cash and cash equivalents | | 2.6 | (1.5) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 20 | 21.3 | 17.2 |

# Notes to the Accounts for the Year Ended 31 December 2016

## 1. Corporate Information

The consolidated financial statements of SDL plc (the 'Group') for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 7 March 2017. 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 167 to 176. 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 2016, 2017 annual plans, the Group's 3 year long term plan, a review of working capital including the liquidity position, financial covenant compliance and a review of current cash levels. The group continues to be cash generating and is debt free with no concerns over future cash requirements. As a result, the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for a 12 month period from the date of approval of these accounts. 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.

### 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 disposal, from the date control is transferred from 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 reported 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:

- **Multi element arrangements**

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.

# Notes to the Accounts for the Year Ended 31 December 2016

Professional services and consulting revenue, where provided on a 'time and expense' basis, is recognised as the service is performed and on a percentage of completion basis where provided on a fixed price basis.

- **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

# Notes to the Accounts for the Year Ended 31 December 2016

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

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

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

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

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

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

**Discontinued Operations**

Planned disposals of separate major lines of business are classified as discontinued operations and net assets reclassified as held for sale following the announcement of such divestments. In such instances the comparative results are reclassified to present continuing and discontinued results. The board announced its decision to sell the Non-Core Businesses, which represents a separate major line of business, in January 2016 and the net assets of the impacted businesses were classified as held for sale. Results of the Non-Core Business segments have been disclosed as discontinued operations in this year's financial statements and prior periods have been restated to show the results of discontinued operations separately from continuing operations.

**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').

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 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 is provided.

**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. Further details of one-off costs can be found in note 4.

**Segment reporting**

Segment results are 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**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

**IFRS 15 – Revenue from contracts with customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has completed an initial assessment of the potential financial impact of the adoption of IFRS 15 on its consolidated statements.

The Group expects opening balance sheet adjustments to arise from changes to the revenue recognition treatment of term licences and the capitalisation of certain commission costs. The basis of these two revenue recognition differences is set out below.

The majority of the Group's software licences are either perpetual or Software as a Service (SaaS) in nature. The majority of the Group's revenue contracts also do not extend for more than 12 months and hence the Group does not expect that the implementation of IFRS 15 will lead to material differences in profit on an ongoing basis.

**Term licences**

In circumstances where a considerable future vendor obligation exists as part of a software licence and related services contract, SDL currently recognise revenue over the period that the obligation exists per the contract. Under IFRS 15, the provision of a licence over a period of time is not, in itself, considered an additional obligation on the vendor and therefore revenue for the licence element of such contracts will be recognised in full on delivery to the customer. The support and maintenance element of these contracts will be carved out and recognised over the support and maintenance and hosting (if applicable) service periods.

**Commissions**

IFRS 15 requires the deferral incremental costs of obtaining a contract to be recognised in line with the revenue for those contracts. The Group has determined that these costs will be recognised over the initial contractual term as additional commission

# Notes to the Accounts for the Year Ended 31 December 2016

is paid on contract renewals and extensions and therefore the initial commission only relates to the initial term. The Group is expecting to take advantage of the practical expedient not to defer such costs related to contracts less than 12 months in length.

**Transition plan**

The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented with a cumulative adjustment to the opening balance sheet at 1 January 2017.

The Group's detailed assessment is ongoing and it expects to disclose quantitative information in advance of issuing the 2018 Annual report.

The following new standards are not expected to have a material impact on the Group's financial statements:

- **IFRS 16 Leases, effective for periods beginning on or after 1 January 2019**
  IFRS 16 introduces a single, on-balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The group has started an initial assessment to identify the impact and whilst there will be an impact on the balance sheet presentation, there is not expected to be a material profit impact.

- **Disclosure initiative (Amendments to IAS 7), effective for periods beginning on or after 1 January 2017**

- **IFRS Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), effective for periods beginning on or after 1 January 2017**

- **IFRS 9 Financial Instruments, effective for periods beginning on or after 1 January 2018**
  The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. However, given current financial instruments in place it is not expected to have a significant impact on SDL's financial statements.

**Significant critical accounting judgements, estimates and assumptions**

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. Perpetual licence revenue in the year amounted to £26.7 million in 2016 (2015: £22.8 million).

**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.

**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. Services work is generally invoiced on completion and the amount of year end work in progress amounted to £12.8 million (2015: £7.9 million).

**Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations, including transfer pricing, and the amount and timing of future taxable income. Given the nature of the Group's operating model (which necessitates intercompany transactions of approximately £200 million per annum), 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. The Group has four operating segments as follows:

- The Language Services segment is the provision of a translation service for customers' multilingual content in multiple languages.
- The Language Technologies segment is the sale of enterprise, desktop and statistical machine translation technologies together with associated consultancy 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 services.

The Board (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 announcement of the intention of the Group to dispose of its Non-Core business segment, which includes the Fredhopper and Social Intelligence businesses, these businesses have been designated as assets held for resale and their activities have been disclosed as discontinued operations. On 2 November 2016 the Group's campaign business was disposed. The Group's segmental disclosures have been adjusted to reflect the fact that discontinued operations results do not attract proportionate allocations of shared costs. The impact of this change has been to reduce the central costs attributed to the Non-Core segment by £5.9 million and to increase costs attributed to the Language Services, Language Technology and Global Content Technology segments by £2.3 million, £0.3 million and £3.3 million respectively.

# Notes to the Accounts for the Year Ended 31 December 2016

| Year ended 31 December 2016 | External Revenue £m | Depreciation £m | Segment profit/(loss) before taxation & amortisation £m |
|---|---|---|---|
| Language Services | 165.3 | 2.0 | 18.8 |
| Language Technologies | 45.4 | 0.5 | 4.4 |
| Global Content Technologies | 54.0 | 0.5 | 3.8 |
| Non Core Businesses | 25.2 | 0.5 | (3.5) |
| Total | 289.9 | 3.5 | 23.5 |
| Loss on disposal | | | (21.0) |
| Amortisation, one-off costs & finance costs | | | (18.3) |
| Loss before taxation | | | (15.8) |

| Year ended 31 December 2015 – restated | External Revenue £m | Depreciation £m | Segment profit/(loss) before taxation & amortisation £m |
|---|---|---|---|
| Language Services | 152.8 | 2.1 | 28.0 |
| Language Technologies | 36.7 | 0.5 | 1.0 |
| Global Content Technologies | 50.9 | 0.5 | (4.8) |
| Non Core Businesses | 26.5 | 0.5 | (3.6) |
| Total | 266.9 | 3.6 | 20.6 |
| Amortisation & One-off Costs | | | (45.8) |
| Loss before taxation | | | (25.2) |

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

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

| | 2016 £m | 2015 £m |
|---|---|---|
| UK | 59.6 | 69.8 |
| USA | 92.9 | 77.4 |
| Republic of Ireland | 26.5 | 22.2 |
| Netherlands | 23.7 | 20.1 |
| Canada | 17.2 | 12.7 |
| Belgium | 16.4 | 14.8 |
| Germany | 15.5 | 13.1 |
| Rest of World | 38.1 | 36.8 |
| | 289.9 | 266.9 |

A Geographical analysis of external revenues by destination is as follows

| | 2016 £m | 2015 £m |
|---|---|---|
| UK | 39.8 | 38.8 |
| USA | 113.9 | 88.9 |
| Netherlands | 19.0 | 19.1 |
| Canada | 13.3 | 14.0 |
| Belgium | 5.4 | 5.2 |
| Germany | 20.3 | 17.8 |
| Rest of World | 78.2 | 83.1 |
| | 289.9 | 266.9 |

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

| | 2016 £m | 2015 £m |
|---|---|---|
| UK | 41.1 | 67.2 |
| USA | 63.0 | 55.8 |
| Rest of World | 55.1 | 48.0 |
| | 159.2 | 171.0 |

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.

**Discontinued Operations**

The board announced its decision to sell the Non-Core Businesses, which represents a separate major line of business, in January 2016. The results of the Non-Core Businesses segment have therefore been disclosed as discontinued operations in this year's financial statements and prior periods have been restated to show the results of discontinued operation separately from continuing operations.

The Group completed the sale of its Campaigns business on 2 November 2016 and has signed a conditional agreement to sell its Fredhopper business to ATTRAQT PLC. It is expected that the Fredhopper sale will complete in March 2017. The sale of the Social Intelligence business is ongoing.

Following the impairment charged against the Group's Non Core segment in 2015, the proceeds of the Non Core disposals were expected to be in line with the net book value of the related net assets and accordingly no impairment losses were recognised on classification of these operations as held for sale. As the disposal of the group's discontinued operations has progressed, the sales process has developed into three separate transactions. As a result, as each transaction completes, there is a gain or loss on disposal arising from the difference between the consideration received and the carrying value of assets in each business, including the allocation of goodwill to each business. Goodwill allocated to each business being disposed of is based upon the goodwill arising in the original business combination, reduced by specific impairments recorded in prior periods. Goodwill attributed to the different businesses at 31 December 2015 was Campaign £16.9 million, Fredhopper £3.8 million and Social Intelligence £nil.

The sale of the Campaigns business resulted in a £21.0 million loss on disposal in the period. The sale of the Fredhopper business due to complete in March 2017 is expected to result in a gain on disposal of approximately £22m. .

**Cash Flows from / (used in) discontinued operations**

| | 2016 £m | 2015 £m |
|---|---|---|
| Loss for the year | (26.4) | (22.5) |
| Tax (credit)/expense | (0.4) | 0.2 |
| Loss before tax | (26.8) | (22.3) |
| Loss on disposal of discontinued operations | 21.0 | - |
| Movements in working capital | 5.8 | 22.3 |
| Net cash from operating activities | - | - |
| Net cash used in investing activities | (1.6) | - |
| Net cash used in financing activities | - | - |
| Net cash flows for the period | (1.6) | - |

Movements in working capital includes Group funding to cover working capital requirements. Net cash used in investing activities includes the cash impact of the sale of the Campaigns business as set out below. In addition to the £1.6m net cash outflow recorded in 2016, the Group expects to receive a cash inflow of £0.3 million in future following the expiry of a contractual retention period. These funds are currently held in escrow and are reported in Other Debtors.

**Effect of disposal on the financial position of the group**

| | 2016 |
|---|---|
| Intangible assets | 21.9 |
| Tangible Fixed Assets | 0.4 |
| Trade and other receivables | 2.2 |
| Deferred income and other payables | (4.8) |
| Net assets | 19.7 |
| | |
| Net cash outflow | (1.3) |
| Loss on disposal | (21.0) |

# Notes to the Accounts for the Year Ended 31 December 2016

### Financial position of assets and liabilities held for sale

The assets and liabilities held for sale consist of:

| | 2016 |
|---|---|
| Property, plant and equipment | 0.1 |
| Intangible assets | 3.8 |
| Trade and other receivables | 3.2 |
| Cash and cash equivalents | - |
| Trade and other payables | (7.4) |
| Net assets and liabilities | (0.3) |

## 4. Other revenue and expenses

### Group operating profit is stated after charging/(crediting):

| | 2016 £m | 2015 £m |
|---|---|---|
| Included in administrative expenses: | | |
| | | |
| Research and development expenditure (restated) | 25.9 | 25.9 |
| Bad debt charge | 0.2 | 0.2 |
| Depreciation of property, plant and equipment – owned assets | 3.5 | 3.5 |
| Depreciation of property, plant and equipment – leased assets | - | 0.1 |
| Amortisation of intangible assets | 5.2 | 6.7 |
| Operating lease rentals for plant and machinery | 0.2 | 0.5 |
| Operating lease rentals for land and buildings | 7.0 | 6.5 |
| Net foreign exchange gains | (1.8) | (3.8) |
| Share based payment charge | 1.5 | 1.5 |

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 2016 (2015: £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. 2015 balances have been restated to ensure consistency with 2016 calculations.

### Auditor's remuneration

| | 2016 £m | 2015 £m |
|---|---|---|
| Audit of the Group financial statements | 0.4 | 0.4 |
| Other fees to auditors: | | |
| Local statutory audits for subsidiaries | 0.1 | 0.1 |
| Taxation compliance services | 0.4 | 0.3 |
| Other services | 0.2 | 0.4 |

### Staff costs

| | 2016 £m | 2015 £m |
|---|---|---|
| Wages and salaries | 133.5 | 123.4 |
| Social security costs | 16.7 | 15.5 |
| Pension costs (included in administrative expenses) | 4.8 | 4.6 |
| Expense of share based payments | 1.5 | 1.5 |
| | 156.5 | 145.0 |

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 £4.8 million (2015: £4.6 million).

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

| | 2016 Number | 2015 Number |
|---|---|---|
| Administration and sales | 1,234 | 1,276 |
| Production | 2,346 | 2,228 |
| | 3,580 | 3,504 |

### Finance costs

| | 2016 £m | 2015 £m |
|---|---|---|
| Bank loans | - | 0.1 |
| | - | 0.1 |

### One-off items

| | 2016 £m | 2015 £m |
|---|---|---|
| Redundancy and other staff costs | 6.5 | 3.5 |
| Strategy development | 2.8 | 0.7 |
| Relaunch of SDL | 2.1 | - |
| Impairment charge | - | 33.3 |
| Other one-off items | 1.7 | 1.6 |
| | 13.1 | 39.1 |

The Group has undergone a very significant reorganisation over the past two years including the departure of its then Chief Executive Officer in October 2015, the completion of the Group's operational review in January 2016 (including the announcement of the disposal of the Non Core businesses) and the appointment of a new Chief Executive Officer in April 2016. These events then led to significant changes in senior personnel, the development of the new strategy, corporate rebranding and the reorganisation of operational and corporate structures. In addition the Group has incurred one-off tax charges over the past two years.

As a result, the Group has incurred significant one-off costs over the past two years which are not expected to recur and therefore have been separately disclosed in the income statement to provide a better guide to underlying business performance.

In 2016, the Group has incurred £13.1 million of one-off costs (2015: £33.3 impairment write down and other one-offs of £5.8 million). These one-off costs comprise:

- redundancy and retention costs due to the reorganisation of the Group in 2016 (£6.5 million).

# Notes to the Accounts for the Year Ended 31 December 2016

- professional fees and related charges associated with the strategy development (£2.8 million);
- costs of relaunching SDL which included the costs of internal and external conferences to communicate our new strategy and the global relaunch of SDL's brand and associated marketing collateral (£2.1 million); and
- other one-off costs includes provision for indirect tax liabilities and corporate consolidation exercises (£1.7 million).

  As a result of the above, the Group now has the right strategy, brand, leadership and organisational structure to realise the full potential of our market opportunities and deliver shareholder value.

## 5. Income tax

**(a) Income tax on profit:**

**Consolidated income statement**

| | 2016 £m | 2015 £m |
|---|---|---|
| Current taxation | | |
| UK Income tax charge | | |
| Current tax on income for the period | 0.8 | 1.9 |
| Adjustments in respect of prior periods | (0.4) | 0.1 |
| | 0.4 | 2.0 |
| Foreign tax | | |
| Current tax on income for the period | 5.3 | 4.9 |
| Adjustments in respect of prior periods | 0.6 | 0.5 |
| | 5.9 | 5.4 |
| Total current taxation | 6.3 | 7.4 |
| Deferred income taxation | | |
| Origination and reversal of temporary differences | (4.0) | (1.9) |
| Total deferred income tax | (4.0) | (1.9) |
| Tax expense (see (b) below) | 2.3 | 5.5 |

**Consolidated statement of other comprehensive income**

| | 2016 £m | 2015 £m |
|---|---|---|
| Current taxation | | |
| UK Income tax charge | | |
| Income tax charge on currency translation differences on foreign currency quasi equity loans to foreign subsidiaries | 0.2 | 0.7 |
| Total current taxation | 0.2 | 0.7 |

A tax credit in respect of share based compensation for deferred taxation of £0.2 million (2015: £0.1 million debit) 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 20.0% (2015: 20.3%). The differences are reconciled below:

| | 2016 £m | 2015 £m |
|---|---|---|
| Loss on ordinary activities before tax | (15.8) | (25.2) |
| | | |
| Loss on ordinary activities at standard rate of tax in the UK 20.0% (2015: 20.3%) | (3.2) | (5.1) |
| Expenses not deductible for tax purposes | 2.1 | 1.2 |
| Impairment of goodwill | - | 6.7 |
| Adjustments in respect of previous years | 0.2 | 0.6 |
| Recognition of tax losses brought forward previously not recognised | (2.9) | (1.7) |
| Utilisation of tax losses brought forward previously not recognised | - | (0.6) |
| Current tax losses not available for offset | 1.4 | 2.6 |
| Effect of overseas tax rates | (1.1) | 0.6 |
| Loss on disposal on sale of Non-Core business | 4.3 | - |
| Other | 1.5 | 1.2 |
| Tax expense (see (a) above) | 2.3 | 5.5 |

**(c) Factors that may affect future tax charges:**

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

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

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was 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, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

In common with other multinational organisations, there are a number of transactions that occur between the Group's entities. These transactions include charges for translation and professional services, management and support services and intellectual property fees. The group operates in 38 countries around the world and is subject to ongoing tax audits and reviews and is consequently exposed to potentially material, adverse tax outcomes. 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.

# Notes to the Accounts for the Year Ended 31 December 2016

### (d) Deferred income tax:

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

| | Recognised 2016 £m | Unrecognised 2016 £m | Recognised 2015 £m | Unrecognised 2015 £m |
|---|---|---|---|---|
| Depreciation in advance of capital allowances | 0.4 | - | 0.5 | - |
| Other short-term temporary differences | (0.2) | - | (2.3) | - |
| Tax losses | 7.1 | 34.7 | 4.7 | 35.6 |
| Net deferred income tax asset | 7.3 | 34.7 | 2.9 | 35.6 |

Deferred tax assets have not been recognised where there is considered to be material uncertainty as to the availability of losses in future years. The Group has unrecognised tax losses in net terms of £34.7 million (2015: £35.6 million). These unrecognised losses exclude the Group's estimate of time barred losses which will not be available for offset in future years £18.6 million (2015: £11.8 million). These estimates are primarily dependent upon change of control assumptions and goodwill valuations under US tax regulations. The unrecognised tax losses disclosed include tax losses amounting to £21.6 million which, following the disposal of the trade and assets of the Campaign business and the expected sale of the Social Intelligence business, are not expected to be available to offset profits arising from the Group's Continuing Operations.

1. Included within other short term temporary differences are deferred tax assets in respect of potential Schedule 23 tax benefits of £0.5 million (2015: £0.4 million) and a deferred tax liability in respect of the amortisation of certain intangible assets acquired of £2.0 million (2015: £2.9 million).

2. The Group has recognised deferred tax assets on losses of £7.1 million (2015: £4.7 million). The amounts recognised are based on the historical profitability and the forecast future taxable profits of the relevant entities.

3. At 31 December 2016, the net deferred income tax position is represented by a deferred income tax asset of £8.4 million (2015: £6.0 million) and a deferred income tax liability of £1.1 million (2015: £3.1 million).

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

| | 2016 £m | 2015 £m |
|---|---|---|
| At 1 January | 3.1 | 4.4 |
| Retranslation of opening balances | 0.2 | - |
| Reversal of temporary differences arising on the amortisation of intangibles | (1.0) | (1.3) |
| Other temporary differences arising in the period | (0.2) | - |
| Write off of intangibles on disposal | (1.0) | - |
| Deferred tax liability at 31 December | 1.1 | 3.1 |

### (f) Reconciliation of movement on deferred tax asset:

| | 2016 £m | 2015 £m |
|---|---|---|
| At 1 January | 6.0 | 5.3 |
| Retranslation of opening balances | 0.6 | 0.1 |
| Temporary differences arising in the period | 1.6 | 0.7 |
| Deferred income tax asset arising on share based payments recorded in statement of changes in equity | 0.2 | (0.1) |
| Other temporary differences arising in the period | - | - |
| Deferred tax asset at 31 December | 8.4 | 6.0 |

The deferred tax asset of £8.4 million (2015: £6.0 million) and liability of £1.1 million at 31 December 2016 (2015: £3.1 million) have been calculated based on the rate of 19% which was substantively enacted at the balance sheet date or local tax rates as applicable in overseas territories.

## 6. Dividends

| | 2016 £m | 2015 £m |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2015 was 3.1 pence per share. (Year ended 31 December 2014: 2.5 pence per share) | 2.5 | 2.0 |

A final dividend for the year ended 31 December 2016 of 6.2 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 £18.2 million (2015: loss of £30.7 million) and 81,373,409 (2015: 81,101,706) 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 2016, the diluted ordinary shares were based on 82,162,157 ordinary shares that included 788,748 potential ordinary shares.

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Loss for the year | (18.2) | (30.7) |
| Loss on disposal of Non-Core business | 21.0 | - |
| One-off items (including impairment loss in 2015) | 13.1 | 39.1 |
| Amortisation of intangible fixed assets | 5.2 | 6.7 |
| Less: tax benefit associated with the amortisation of intangible fixed assets | (1.0) | (1.3) |
| Tax benefit associated with one-off items | (1.9) | (0.6) |
| Adjusted profit for the year | 18.2 | 13.2 |

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

| | 2016 number | 2015 number |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 81,373,409 | 81,101,706 |
| Effect of dilution resulting from share options | 788,748 | 722,199 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 82,162,157 | 81,823,905 |

| | Continuing | Discontinued | 2016 | Continuing | Discontinued | 2015 |
|---|---|---|---|---|---|---|
| Adjusted earnings per ordinary share – basic (pence) | 26.58 | (4.20) | 22.38 | 21.17 | (5.04) | 16.13 |
| Adjusted earnings per ordinary share – diluted (pence) | 26.32 | (4.16) | 22.17 | 21.17 | (5.04) | 16.13 |

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.

Notes to the Accounts for the Year Ended 31 December 2016

## 8. Property, plant and equipment

| | Leasehold Improvements £m | Computer Equipment £m | Fixtures & Fittings £m | Total £m |
|---|---|---|---|---|
| Cost: | | | | |
| 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 |
| At 1 January 2016 | 2.7 | 26.5 | 3.2 | 32.4 |
| Additions | - | 1.9 | 0.1 | 2.0 |
| Disposals | (0.4) | (0.3) | (0.8) | (1.5) |
| Disposals of Non-Core business | - | (4.6) | - | (4.6) |
| Assets classified as held for sale | - | (1.3) | (0.2) | (1.5) |
| Currency adjustment | 0.3 | 4.5 | 0.2 | 5.0 |
| **At 31 December 2016** | **2.6** | **26.7** | **2.5** | **31.8** |

| | Leasehold Improvements £m | Computer Equipment £m | Fixtures & Fittings £m | Total £m |
|---|---|---|---|---|
| Accumulated depreciation: | | | | |
| 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) |
| At 1 January 2016 | (1.9) | (22.1) | (2.1) | (26.1) |
| Provided during the year | (0.3) | (3.0) | (0.2) | (3.5) |
| Disposals | 0.4 | 0.4 | 0.7 | 1.5 |
| Disposals of Non-Core business | - | 4.2 | - | 4.2 |
| Assets classified as held for sale | - | 1.2 | 0.2 | 1.4 |
| Currency adjustment | (0.1) | (3.5) | (0.4) | (4.0) |
| **At 31 December 2016** | **(1.9)** | **(22.8)** | **(1.8)** | **(26.5)** |
| | | | | |
| Net book value | | | | |
| At 31 December 2016 | 0.7 | 3.9 | 0.7 | 5.3 |
| | | | | |
| At 1 January 2016 | 0.8 | 4.4 | 1.1 | 6.3 |

Included in property, plant and equipment are assets held under finance lease of £Nil at 31 December 2016 (2015: £0.1 million).

# 9. Intangible assets

| | Customer Relationships £m | Intellectual Property £m | Goodwill £m | Total £m |
|---|---|---|---|---|
| Cost | | | | |
| 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 |
| At 1 January 2016 | 20.3 | 60.7 | 214.4 | 295.4 |
| Acquisitions | - | - | - | - |
| Disposal of Non-Core business | (3.7) | (7.6) | (16.9) | (28.2) |
| Reclassification to assets held for sale | - | - | (3.8) | (3.8) |
| Currency adjustment | 2.0 | 7.5 | 18.9 | 28.4 |
| **At 31 December 2016** | **18.6** | **60.6** | **212.6** | **291.8** |
| | | | | |
| Amortisation and impairment | | | | |
| 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) | - | - |
| At 1 January 2016 | (16.3) | (50.1) | (65.9) | (132.3) |
| Provided during the year | (1.1) | (4.1) | - | (5.2) |
| Impairment loss | - | - | - | - |
| Disposal of Non-Core business | 2.1 | 4.2 | - | 6.3 |
| Currency adjustment | (2.0) | (6.7) | - | (8.7) |
| **At 31 December 2016** | **(17.3)** | **(56.7)** | **(65.9)** | **(139.9)** |
| | | | | |
| Net book value | | | | |
| **At 31 December 2016** | **1.3** | **3.9** | **146.7** | **151.9** |
| | | | | |
| At 1 January 2016 | 4.0 | 10.6 | 148.5 | 163.1 |

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).

Notes to the Accounts for the Year Ended 31 December 2016

## 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 | Registered Address of business | Country of Incorporation | Holding | Proportion of Voting Rights | Primary nature of Business |
|---|---|---|---|---|---|
| **Held directly:** | | | | | |
| SDL France SARL | 36 avenue du Général de Gaulle, Paris 93170, France | France | Ordinary | 100% | Language Services |
| SDL Software Technology (Shenzhen) Co Ltd | Room 309, Floor 3, Resources-Tech-Building, Songping ShanRoad, High-tech Industrial Park, Nanshan District, Shenzhen City, Guandong, PRC | China | Ordinary | 100% | Language Services and Technology |
| SDL Poland Sp zoo | Ul. Fordonska 246, 85 766 Bydgoszcz | Poland | Ordinary | 100% | Language Services |
| SDL do Brazil Global Solutions Ltda | Rua Barao do Trinfo 73, Rooms 63-67, Brooklin Paulista, Sao Paolo | Brazil | Ordinary | 100% | Language Services |
| SDL Nominees Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| SDL Global Holdings Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding company |
| SDL Multilingual Solutions Private Ltd | 1319, 13th Floor, Bldg A1, Rupa Solitaire, Sector 1, Millenium Business Park, Mahape, Navi Mumbai, 400 710, India | India | Ordinary | 100% | Language Services |
| SDL Turkey Translation Services & Commerce Ltd | Camlica Street Muhurdar Cikmazi (cul de sac) No:2 Beylerbeyi Uskudar 34676 Istanbul | Turkey | Ordinary | 100% | Language Services |
| SDL Chile SA | Avenida Holanda 00 Oficina 1002 Providencia, Region Metropolitana, Santiago 7510021 Chile | Chile | Ordinary | 100% | Language Services |
| SDL Portugal Unipessoal LDA | Rua Julio Dinis, no. 826, 4o Dt., freguesia Cedofeita, Ildefonso, Se, Nicolau, Vitoria, Porto, Portugal | Portugal | Ordinary | 100% | Language Services |

| Name of Company | Registered Address of business | Country of Incorporation | Holding | Proportion of Voting Rights | Primary nature of Business |
|---|---|---|---|---|---|
| **Held indirectly:** | | | | | |
| SDL Sheffield Limited | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Language Services |
| Automated Language Processing Services Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| Bemoko Consulting Limited | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Technology |
| SDL Tridion Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Technology |
| Interlingua Group Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| XyEnterprise Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Technology |
| Fredhopper Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Technology |
| Alterian Holdings Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| Alterian Technology Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Technology |
| Intrepid Consultants Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| Alpnet UK Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| Computype Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| Mediasurface Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| SDL (Poole) Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| SDL (Newbury) Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| SDL Minorities Ltd | Globe House, Clivemont Road, Maidenhead, SL6 7DY | England & Wales | Ordinary | 100% | Holding Company |
| SDL Sweden AB | Fatbursgatan 1, Stockholm, S-118 28 Sweden | Sweden | Ordinary | 100% | Language Services |
| SDL Tridion AB | Fatbursgatan 1, Stockholm, S-118 28 Sweden | Sweden | Ordinary | 100% | Technology |
| SDL Global Solutions (Ireland) Limited | La Vallee House, Upper Dargle Road, Bray, Co Wicklow | Ireland | Ordinary | 100% | Language Services and Technology |
| SDL Belgium NV | Vital Decosterstraat 44, 3000 Leuven, Belgium | Belgium | Ordinary | 100% | Language Services |
| SDL Inc | 201 Edgewater Drive, Wakefield, MA 01880-1296 | United States of America | Ordinary | 100% | Technology |
| SDL XyEnterprise LLC | 201 Edgewater Drive, Wakefield, MA 01880-1296 | United States of America | Ordinary | 100% | Language Services and Technology |

# Notes to the Accounts for the Year Ended 31 December 2016

| Name of Company | Registered Address of business | Country of Incorporation | Holding | Proportion of Voting Rights | Primary nature of Business |
|---|---|---|---|---|---|
| **Held indirectly:** | | | | | |
| SDL Japan KK | Nakameguro GT Tower 4f, 2-1-1, Kamimeguro Meguro Tokyo 153-0051 Japan | Japan | Ordinary | 100% | Language Services and Technology |
| SDL Tridion K.K. | Nakameguro GT Tower 4f, 2-1-1, Kamimeguro Meguro Tokyo 153-0051 Japan | Japan | Ordinary | 100% | Technology |
| SDL Hellas MEPE | Philippou 6, Metamorfosi, Athens 144 51, Greece | Greece | Ordinary | 100% | Language Services |
| SDL Holdings BV | Hoogoorddreef 60, 1101 BE Amsterdam, The Netherlands | Netherlands | Ordinary | 100% | Holding Company |
| SDL Netherlands BV | Hoogoorddreef 60, 1101 BE Amsterdam, The Netherlands | Netherlands | Ordinary | 100% | Language Services |
| Fredhopper BV | Hoogoorddreef 60, 1101 BE Amsterdam, The Netherlands | Netherlands | Ordinary | 100% | Technology |
| SDL Media Manager BV | Hoogoorddreef 60, 1101 BE Amsterdam, The Netherlands | Netherlands | Ordinary | 100% | Technology |
| SDL Passolo GmbH | Waldburgstrasse 21, 70563, Stuttgart | Germany | Ordinary | 100% | Technology |
| SDL Multilingual Services GmbH & Co KG | Waldburgstrasse 21, 70563, Stuttgart | Germany | Ordinary | 100% | Language Services |
| Trados GmbH | Waldburgstrasse 21, 70563, Stuttgart | Germany | Ordinary | 100% | Technology |
| SDL MLS GmbH | Waldburgstrasse 21, 70563, Stuttgart | Germany | Ordinary | 100% | Holding Company |
| SDL Multilingual Services Verwaltungs GmbH | Waldburgstrasse 21, 70563, Stuttgart | Germany | Ordinary | 100% | Holding Company |
| SDL Italia Srl Unipersonale | Via Stradella 165, Roma 00124, Italy | Italy | Ordinary | 100% | Language Services |
| Software Documentation Localization Spain, S.L. | Avenida Constitucion, no 20 Edificio La Piramide, Oficina 206, 18012 Granada | Spain | Ordinary | 100% | Language Services |
| SDL International (Canada) Inc | 1155 Metcalfe St, Suite 1200, Montreal, Quebec, Canada, H3B 2V6 | Canada | Ordinary | 100% | Language Services |
| SDL Multi-Lingual Solutions (Singapore) PTE Ltd | 138, Cecil Street, #15-00 Cecil Court, Singapore 069538 | Singapore | Ordinary | 100% | Language Services |
| Alterian Pte Ltd | 138, Cecil Street, #15-00 Cecil Court, Singapore 069538 | Singapore | Ordinary | 100% | Technology |
| SDL Magyaror szaj szolgaltato Kft | Arboc u. 6 III., Budapest, H-1702 | Hungary | Ordinary | 100% | Language Services |
| SDL CZ sro | Nerudova 198 Hradec Kralove 500 02 Czech Republic | Czech Republic | Ordinary | 100% | Language Services |
| SDL Traduceri SRL | Str. Mendeleev nr. 28-30, et. 3, Sector 1, cod postal 010365, Bucharest, Romania J40/5123/2000 | Romania | Ordinary | 100% | Language Services |
| SDL Zagreb doo | Bednjanska 14/II, 10 000 Zagreb | Croatia | Ordinary | 100% | Language Services |
| SDL doo Ljubljana | Stegne 21C, Ljubljana | Slovenia | Ordinary | 100% | Language Services |

| Name of Company | Registered Address of business | Country of Incorporation | Holding | Proportion of Voting Rights | Primary nature of Business |
|---|---|---|---|---|---|
| **Held indirectly:** | | | | | |
| LLC SDL Ukraine | Business center SP Hall Office 604, 28 A (letter G) Stepana Bandery avenue Kiev, Ukraine 04073 | Ukraine | Ordinary | 100% | Technology |
| SDL Tridion GmbH | Balanstrassse 49 81669 Munich Germany | Germany | Ordinary | 100% | Technology |
| SDL Tridion Hispania SL | Lopez de Hoyos 35, 1a Planta, 28002 Madrid, Spain | Spain | Ordinary | 100% | Technology |
| LLC SDL Rus | Ul Zastavskaya Street, 22, "A", 196084 St Petersburg, Russia | Russia | Ordinary | 100% | Language Services |
| Spring Technologies Ltd | 17A Hadji Dimitar Str, 1000 Sofia, Bulgaria | Bulgaria | Ordinary | 100% | Technology |
| SDL Xopus BV | Koninginnegracht 12 B-13 | Netherlands | Ordinary | 100% | Technology |
| Language Weaver SRL | 24 Constanta Street, fl. 2-4, Cluj-Napoca Romania, 400157, Romania | Romania | Ordinary | 100% | Technology |
| SDL Technologies India PVT Ltd | Building 4, Block A, 7th Floor, 77 Town Centre, Yemalur Main Road, Off Old Airport Road, Bangalore – 560 037 | India | Ordinary | 100% | Technology |
| SDL Technologies (Australia) Pty Ltd | Nexia Sydney Pty Ltd, Level 16, 1 Market Street, Sydney, NSW 2000 | Australia | Ordinary | 100% | Technology |
| Fredhopper (Australia) Pty Ltd | Nexia Sydney Pty Ltd, Level 16, 1 Market Street, Sydney, NSW 2000 | Australia | Ordinary | 100% | Technology |
| Alterian do Brazil Software e Servicos Ltda | Avenida Presidente Wilson No. 231, 23rd andar, Rio de Janerio, Brasil | Brazil | Ordinary | 100% | Technology |
| SDL Technologies (Vietnam) Co Ltd | 14th Floor, REE Tower, No. 9 Doan Van Bo Street, ward 12, district 4, Ho Chi Minh City | Vietnam | Ordinary | 100% | Technology |
| Alterian Inc | 135 South LaSalle Street, Suite 2500, Chicago, IL 60603 | United States of America | Ordinary | 100% | Technology |
| SDL Government Inc | Corporation Trust Center, 1209 Orange Street, City of Wilmington, Country of New Castle | United States of America | Ordinary | 100% | Technology |
| Alterian Holdings Inc | Corporation Trust Center, 1209 Orange Street, City of Wilmington, Country of New Castle | United States of America | Ordinary | 100% | Holding company |
| Fredhopper SARL | 27 Avenue de l'Opera 75001 Paris, France | France | Ordinary | 100% | Technology |
| Fredhopper GmbH | Neuer Wall 63, 2nd & 3rd Floor, Hamburg 20354, Germany | Germany | Ordinary | 100% | Technology |

The proportion of voting rights held is as shown above.

## 11. Impairment Testing of Goodwill

The Group has goodwill that has been acquired through business combinations and 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.

The group's CGUs are unchanged from 2015 and are; Language Services, Language Technologies, 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. Following the disposal of the Campaigns business during the year the Non-Core Businesses segment continues to include the Group's 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.

Note that the non-core businesses are classified as assets held for sale at 31 December 2016 and therefore goodwill and other assets and liabilities are measured at the lower of original carrying value or recoverable amount. Therefore, no further disclosure is included in this note, refer to note 3 for further information.

Goodwill has been allocated for impairment testing purposes to these CGUs 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 2017 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 10.1% applied to Language Services (2015: 10.6%), 11.1% to Language Technologies and Global Content Technologies and 14.0% to the Non-Core Businesses (2015: Language Technologies and Global Content Technologies 11.6%, Non-Core businesses 14.5%). 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 10.8% for 2016 (2015: 11.4%). Pre-tax discount rates were 13.1% for Language Services, 15.2% for Language Technologies and 14.3% for Global Content Technologies. (2015: 14.4% to 18.3%). Budgets have been prepared at the cash generating unit level based on historical trends adjusted for expected future events. These individual budgets have been aggregated as the basis for the 2017 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 (2015: 2%). Differential growth rates have been applied to the different operating segments beyond the budget period consistent with 2015. These are 6% for Language Services, 6.5% for Language Technologies and 8% for Global Content Technologies.

As a result of this review and, following a successful year for SDL, no impairment has been identified.

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

| | 2016 £m | 2015 £m |
|---|---|---|
| Language Services | 21.2 | 21.1 |
| Language Technologies | 60.1 | 48.0 |
| Global Content Technologies | 65.4 | 59.2 |
| Non-Core Businesses | - | 20.2 |
| | 146.7 | 148.5 |

Goodwill associated with the Group's Fredhopper business is included within assets held for resale (see note 3).

### Sensitivity to changes in assumptions

Management has identified three key assumptions which could significantly impact the impairment test: post-tax discount rate, perpetuity growth rate and revenue growth.

The change in the assumptions above required for the recoverable amount of the Global Content Technologies and Language Technologies operating segments to equal their carrying amounts are shown below:

| | Language Technologies | Global Content Technologies |
|---|---|---|
| Recoverable amounts exceeds carrying amounts by | £19.6m | £10.4m |
| Reduction in revenue growth | 4.1% | 2.4% |
| Increase in post-tax discount rate | 2.6% | 1.3% |
| Reduction in perpetuity growth rate | n/a* | 1.8% |

*removal of the perpetuity rate entirely does not result in an impairment for the segment

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 2017 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)

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade receivables | 59.1 | 56.4 |
| Prepayments | 9.0 | 9.1 |
| Accrued income | 12.9 | 7.9 |
| | 81.0 | 73.4 |

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 2016, trade receivables at nominal value of £1.6 million (2015: £1.5 million) were impaired and provided for. Movements in the provision for impairment of receivables were as follows:

| | £m |
|---|---|
| At 1 January 2015 | 1.4 |
| Charge for the year | 0.2 |
| Utilised in the year | (0.1) |
| Currency adjustment | - |
| At 31 December 2015 | 1.5 |
| Charge for the year | 0.2 |
| Utilised in the year | (0.1) |
| Transfer to assets held for sale | (0.2) |
| Currency adjustment | 0.2 |
| At 31 December 2016 | 1.6 |

# Notes to the Accounts for the Year Ended 31 December 2016

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 | Past due 30-60 days £m | Past due >60 days £m |
|---|---|---|---|---|---|
| 2016 | 59.1 | 43.2 | 7.7 | 2.5 | 5.7 |
| 2015 | 56.4 | 45.2 | 6.7 | 0.6 | 3.9 |

The majority of the impairment provision is recorded in amounts greater than 60 days in 2016 and 2015 . As a result of the Group's collection history no additional impairment provision is deemed necessary.

## 13. Cash and Cash Equivalents

| | 2016 £m | 2015 £m |
|---|---|---|
| Cash at bank and in hand | 21.3 | 17.2 |

Where cash at bank and in hand earns interest, interest accrues at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents is £21.3 million (2015: £17.2 million).

At 31 December 2016, the Group had available £25 million (2015: £20.2 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)

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade payables | 7.2 | 6.1 |
| Other taxes and social security costs | 2.5 | 3.0 |
| Other payables | 7.8 | 6.8 |
| Accruals | 34.5 | 25.8 |
| Deferred income | 36.5 | 40.0 |
| | 88.5 | 81.7 |

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

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

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

Other payables, generally, are non-interest bearing and have an average term of 2 months. There are no longer any amounts payable under finance leases included within this balance (2015: £0.1 million).

## 15. Trade and Other Payables (Non-Current)

| | 2016 £m | 2015 £m |
|---|---|---|
| Deferred income | 1.6 | 1.4 |
| | 1.6 | 1.4 |

# 16. Loans and Overdraft

**Non-current liabilities**

| | 2016 £m | 2015 £m |
|---|---|---|
| Instalments due on bank loans | - | 4.6 |

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 Accordian (uncommitted) facility. At 31st December 2016 all amounts had been repaid (2015: £4.6m, net of prepaid arrangement 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 2016 | 0.6 | 2.7 | 3.3 |
| Arising during the year | 0.1 | 1.4 | 1.5 |
| Utilised | (0.1) | (1.5) | (1.6) |
| **At 31 December 2016** | **0.6** | **2.6** | **3.2** |
| | | | |
| **Current 2016** | **0.3** | **0.8** | **1.1** |
| **Non-current 2016** | **0.3** | **1.8** | **2.1** |
| | **0.6** | **2.6** | **3.2** |
| | | | |
| Current 2015 | 0.2 | 2.7 | 2.9 |
| Non-current 2015 | 0.4 | - | 0.4 |
| | 0.6 | 2.7 | 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 one to five 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 £0.6 million (2015: £0.7 million).

### Other

Other provisions include a number of employee, legal, indirect tax and product related amounts. The largest element of the other provisions relate to disputes regarding indirect tax in a number of locations where the Group operates. The Group has settled the litigation related to the Trados acquisition and a payment of $1.85 million was made in February 2016 in full and final settlement of all claims.

Current obligations are expected to be payable within 1 year and non current liabilities are expected to be paid out after more than one year.

# Notes to the Accounts for the Year Ended 31 December 2016

## 18. Share Capital

**Allotted, called up and fully paid**

| | 2016 millions | 2015 millions | 2016 £m | 2015 £m |
|---|---|---|---|---|
| Ordinary shares of 1p each | | | | |
| At 1 January | 81.3 | 81.0 | 0.8 | 0.8 |
| Issued on exercise of share options | 0.2 | 0.1 | - | - |
| Issued on exercise of LTIPS | - | 0.1 | - | - |
| Issued as payment of contingent consideration | - | 0.1 | - | - |
| At 31 December | 81.5 | 81.3 | 0.8 | 0.8 |

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

1. 12,492 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 278.92 pence to 290.5 pence per share for an aggregate consideration of £35,182

2. 157,145 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £480,780.

3. In March 2016, 40,622 ordinary shares of 1p each were allotted to Gype BV as the first payment of the contingent consideration due as a result of the acquisition of Gype BV in 2015.

## 19. Share-Based Payment Plans

Included within administrative expenses is a charge of £1.5 million relating to the Group's employee share schemes (2015: charge of £1.5 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:

| | 2016 No. | 2016 WAEP | 2015 No. | 2015 WAEP |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 769,085 | £3.87 | 883,674 | £4.03 |
| Granted during the year | 457,500 | £4.19 | 517,000 | £3.77 |
| Forfeited during the year | (114,242) | £4.23 | (528,999) | £4.27 |
| Exercised during the year | (16,992) | £2.81 | (102,590) | £2.61 |
| Outstanding at the end of the year | 1,095,351 | £3.99 | 769,085 | £3.87 |
| Exercisable at 31 December | 128,593 | £2.84 | 145,585 | £2.84 |

The weighted average share price at the date of exercise for the options exercised is £3.99 (2015: £3.87).

For the share options outstanding as at 31 December 2016, the weighted average remaining contractual life is 7.75 years (2015: 7.77 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 to the model:

| | 2016 | 2015 |
|---|---|---|
| Weighted average share price (pence) | 399 | 387 |
| Expected volatility | 36% | 38% |
| Expected option life | 3 years | 3 years |
| Expected dividends | 0.75% | 0.57% |
| Risk-free interest rate | 0.45% | 0.71% |

The weighted average fair value at grant date is £0.95 (2015: £1.10)

The range of exercise prices for options outstanding at the end of the year was £2.79-£4.45 (2015: £2.79-£4.45).

| Exercise price | Date of Grant | Exercise Period | 2016 Number | 2015 Number |
|---|---|---|---|---|
| £2.51- £3.00 | 28/02/08-02/03/09 | 10 years after grant date | 128,593 | 145,585 |
| £3.01- £3.50 | 07/04/14 | 10 years after grant date | 168,758 | 185,500 |
| £4.01- £4.50 | 17/04/15-08/06/16 | 10 years after grant date | 798,000 | 438,000 |
| **Total** | | | 1,095,351 | 769,085 |

**SDL Long Term Incentive Plans**

The SDL Long Term Share Incentive Plan, which was approved by shareholders in April 2011 ("the 2011 plan"), expired for the purposes of new awards in April 2016. 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 2011 plan has been replaced with the SDL Long Term Share Incentive Plan (2016) ("the 2016 Plan") which received approval from shareholders in April 2016 . The 2016 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. The shares granted under the 2016 plan are dependent on either EPS or TSR performance conditions.

On 8 June 2016, 764,081 shares were granted under the 2016 Plan based on a market price of £4.19, 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 dependent on the performance criteria within the plan. The 2011 Plan uses a Monte-Carlo model whereas the 2016 plan uses a different valuation for each performance criteria as most appropriate. This results in a Monte Carlo model being used for the grants issued with a TSR performance criteria and a Black Scholes model for the grants issued with an EPS performance criteria, taking into account the terms and conditions upon which the options were granted. The following table lists the key inputs to and the key output from the model used in the year of grant:

| | 2016 Monte Carlo | 2016 Black Scholes | 2015 |
|---|---|---|---|
| Expected volatility | 36% | 36% | 38% |
| Weighted average fair value at grant date (pence) | 266 | 403 | 385 |
| Expected life | 3 years | 3 years | 3 years |
| Expected dividends | 0.75% | 0.75% | 0.57% |
| Risk-free interest rate | 0.37% | 0.45% | 0.71% |

# Notes to the Accounts for the Year Ended 31 December 2016

| | 2016 No. | 2016 WAEP | 2015 No. | 2015 WAEP |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 906,043 | £0.01 | 2,118,049 | £0.01 |
| Granted during the year | 764,081 | £0.01 | 767,206 | £0.01 |
| Exercised during the year | - | £0.01 | (138,205) | £0.01 |
| Forfeited during the year | (273,020) | £0.01 | (1,841,007) | £0.01 |
| Outstanding at the end of the year | 1,397,104 | £0.01 | 906,043 | £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 would 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) provided benefit to the Group by creating appropriate performance incentives and facilitated the long-term retention of employees who added 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.

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. No grants were made during 2016.

| | 2016 | 2015 |
|---|---|---|
| Expected volatility | n/a | 29.8% |
| Weighted average fair value at grant date (pence) | n/a | 464 |
| Expected life | n/a | 1 year |
| Expected dividends | n/a | 0.5% |
| Risk-free interest rate | n/a | 0.37% |

| | 2016 No. | 2015 No. |
|---|---|---|
| Outstanding at the beginning of the year | 275,714 | 168,500 |
| Granted during the year | - | 280,430 |
| Exercised during the year | (160,368) | (147,000) |
| Forfeited during the year | (51,634) | (26,216) |
| Outstanding at the end of the year | 63,712 | 275,714 |
| Exercisable at 31 December | 31,003 | 19,000 |

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

## 20. Additional Cash Flow Information

**Analysis of Group net debt:**

| | 1 January 2016 £m | Cash flow £m | Exchange differences £m | 31 December 2016 £m |
|---|---|---|---|---|
| Cash and cash equivalents | 17.2 | 1.5 | 2.6 | **21.3** |
| Loans and overdrafts | (4.8) | 4.8 | - | **-** |
| | 12.4 | 6.3 | 2.6 | **21.3** |

| | 1 January 2015 £m | Cash flow £m | Exchange differences £m | 31 December 2015 £m |
|---|---|---|---|---|
| Cash and cash equivalents | 22.1 | (3.4) | (1.5) | 17.2 |
| Loans and overdrafts* | (9.0) | 4.2 | - | (4.8) |
| | 13.1 | 0.8 | (1.5) | 12.4 |

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

## 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 | |
|---|---|---|---|---|---|---|
| | 2016 £m | 2015 £m | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Within one year | **4.2** | 4.3 | **0.4** | 0.6 | **4.6** | 4.9 |
| After one year but not more than five years | **7.3** | 10.3 | **0.3** | 0.6 | **7.6** | 10.9 |
| More than five years | **-** | 0.3 | **-** | - | **-** | 0.3 |
| | **11.5** | 14.9 | **0.7** | 1.2 | **12.2** | 16.1 |

The future minimum rentals receivable under non-cancellable operating leases as at 31 December 2016 were £0.2 million (2015: £0.2 million).

Post year end the Company has signed agreements under which the Company will relocate to a new Head Office in Maidenhead and be released from its existing rental commitments on their current head office building. £3.0 million of the commitments disclosed above are in relation to the current Head Office.

As detailed in note 5, the nature of global tax compliance is inherently subject to interpretation and hence additional liabilities or exposures could arise.

# Notes to the Accounts for the Year Ended 31 December 2016

## 22. Related Party Disclosures

**Compensation of key management personnel of the Group**

| | 2016<br>£m | 2015<br>£m |
|---|---|---|
| Short term employee benefits | 1.5 | 2.4 |
| Post employment benefits | 0.1 | 0.1 |
| Total compensation paid to key management personnel | 1.6 | 2.5 |

Full details of the Directors' remuneration is included in the Directors' Remuneration Report on pages 96 to 120.

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 who have responsibility for planning, directing and controlling the activities of the Group. In line with IAS 24, included in short term employee benefits above is £0.3 million charged to the P&L relating to key management personnel LTIP charges for the year.

## 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 8 to 73.

**Interest Rate Risk:** Net cash has increased from £12.6 million in 2015 to £21.3 million in 2016. Borrowings were £nil at December 2016 (see note 16). The Group has access to a committed facility of £25 million which bears interest at LIBOR+ margin when drawn, 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.

Due to the lack of debt within the group and the limited amount of cash surplus to operational requirements, there is no material sensitivity to a change in interest rates.

**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 2016, the Group had net cash of £21.3 million with no loans balances. Underpinning this philosophy are processes to manage operating cash flow, with a focus on approvals policies 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 46% of total invoicing done in US Dollar and 32% 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 between the Group non sterling revenues and costs 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 2016, 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 the net assets of any non sterling functional currency subsidiaries 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)**

| | 2016 £m | 2015 £m |
|---|---|---|
| + 1 % | (0.7) | (0.9) |
| – 1 % | 0.7 | 0.9 |

**Statement of Financial Position* increase/(decrease) in net assets**

| | 2016 £m | 2015 £m |
|---|---|---|
| + 1 % | (0.5) | (0.8) |
| – 1 % | 0.5 | 0.8 |

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

**Profit before tax gain/(loss)**

| | 2016 £m | 2015 £m |
|---|---|---|
| + 1 % | (0.3) | (0.2) |
| – 1 % | 0.3 | 0.2 |

**Statement of Financial Position* increase/(decrease) in net assets**

| | 2016 £m | 2015 £m |
|---|---|---|
| + 1 % | (0.7) | (0.7) |
| – 1 % | 0.7 | 0.7 |

* 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 end ended 31 December 2016 of 6.2 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 2016**

**Floating rate**

| | 2016 £m | 2015 £m |
|---|---|---|
| Cash | 0.9 | 1.1 |
| Borrowings | - | (4.6) |

**Maturity of financial liabilities**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016:

| | Less than 12 months £m | Over 12 months £m | Total £m |
|---|---|---|---|
| Trade and other payables | 40.5 | - | 40.5 |
| | 40.5 | - | 40.5 |

# Notes to the Accounts for the Year Ended 31 December 2016

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 |
| Short term loans | - | 4.6 | 4.6 |
| Finance lease liability | 0.1 | - | 0.1 |
| | 39.2 | 4.6 | 43.8 |

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

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 Accordian (uncommitted) facility. At 31st December 2016 all amounts had been repaid (2015: £4.6 million, net of prepaid arrangement 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.

### Credit risk

The maximum credit risk exposure related to financial assets is £78.6 million (2015: £68.6 million) represented by the carrying value of trade debtors and other receivables excluding prepayments 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 2016 (2015: None).

The interest rate risk on the borrowings at 31 December 2016 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

The Group announced, on 29 January 2017, an agreement to sell its Fredhopper business to ATTRAQT PLC for £25 million subject to ATTRAQT PLC being readmitted to the AIM market. This condition is expected to be satisfied during the week commencing 6 March 2017. The Group is expected to record a profit on disposal of approx. £22 million on disposal and this will be recorded in the Group's 2017 financial statements.

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

# Company Balance Sheet at 31 December 2016

| | Notes | 2016 £m | 2015 £m |
|---|---|---|---|
| Fixed assets | | | |
| Tangible assets | 2 | 1.0 | 0.7 |
| Investment in subsidiaries | 3 | 222.6 | 149.9 |
| | | 223.6 | 150.6 |
| | | | |
| Current assets | | | |
| Debtors | 4 | 124.2 | 105.8 |
| Cash at bank and in hand | | 4.0 | 1.0 |
| | | 128.2 | 106.8 |
| | | | |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 5 | (154.2) | (120.9) |
| | | (154.2) | (120.9) |
| | | | |
| Net Current Liabilities | | (26.0) | (14.1) |
| | | | |
| Total assets less current liabilities | | 197.6 | 136.5 |
| | | | |
| Creditors: amounts falling due after more than one year | | | |
| Interest bearing loans and borrowings | 6 | - | (4.6) |
| Other payables | 7 | (0.1) | (0.4) |
| | | (0.1) | (5.0) |
| | | | |
| Provisions for liabilities and charges | 8 | (0.3) | (2.4) |
| | | 197.2 | 129.1 |
| | | | |
| Capital and reserves | | | |
| Called up share capital | 9 | 0.8 | 0.8 |
| Share premium account | | 99.2 | 98.5 |
| Profit and loss account | | 97.2 | 29.8 |
| Total equity | | 197.2 | 129.1 |

Approved by the Board of directors on 7 March 2017

A. Hernandez
Director

D. Lavelle
Director

# Company Statement of Changes in Equity For the Year Ended 31 December 2016

| | Share Capital £m | Share Premium Account £m | Profit & Loss Account £m | Total £m |
|---|---|---|---|---|
| At 1 January 2015 | 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 |
| At 1 January 2016 | 0.8 | 98.5 | 29.8 | 129.1 |
| Profit for the period | - | - | 67.9 | 67.9 |
| Dividend paid | - | - | (2.5) | (2.5) |
| Currency translation differences on net investments | - | - | 1.0 | 1.0 |
| Arising on share issues | - | 0.7 | - | 0.7 |
| Share based payments | - | - | 1.0 | 1.0 |
| **At 31 December 2016** | **0.8** | **99.2** | **97.2** | **197.2** |

# Notes to the Accounts for the Year Ended 31 December 2016

## 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").

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 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 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 to use 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.

# Notes to the Accounts for the Year Ended 31 December 2016

### 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

# Notes to the Accounts for the Year Ended 31 December 2016

for which there are separately identifiable income streams (cash generating units). Where in future years the recoverable amount exceeds the carrying amount, impairment losses previously recognised are reversed through the P&L account.

**Provisions**

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

**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 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2016 | 0.6 | 1.5 | 0.2 | 2.3 |
| Additions | - | 1.2 | - | 1.2 |
| At 31 December 2016 | 0.6 | 2.7 | 0.2 | 3.5 |
| | | | | |
| Depreciation | | | | |
| At 1 January 2016 | (0.5) | (1.0) | (0.1) | (1.6) |
| Provided during the year | - | (0.9) | - | (0.9) |
| At 31 December 2016 | (0.5) | (1.9) | (0.1) | (2.5) |
| | | | | |
| Net book value | | | | |
| At 31 December 2016 | 0.1 | 0.8 | 0.1 | 1.0 |
| At 31 December 2015 | 0.1 | 0.5 | 0.1 | 0.7 |

## 3. Investments in subsidiaries

Details of the investments in which the Company holds more than 20% of the nominal value of ordinary share capital are given in note 10 of the Group financial statements.

| | £m |
|---|---|
| **Cost** | |
| At 1 January 2016 | 223.1 |
| Additions | 0.1 |
| Disposals | (0.6) |
| **At 31 December 2016** | **222.6** |
| | |
| **Impairment** | |
| At 1 January 2016 | (73.2) |
| Reversal of prior year impairments | 73.2 |
| Charge for the year | - |
| **At 31 December 2016** | - |
| | |
| **At 31 December 2016** | **222.6** |
| At 31 December 2015 | 149.9 |

The reversal of prior year impairments arose following the transfer of a number of group subsidiaries to a direct subsidiary, SDL Global Holdings Limited, which meant that its carrying value is now fully supported.

## 4. Debtors

**Debtors: Amounts falling due within one year**

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade debtors | 7.2 | 6.8 |
| Amounts owed by Group undertakings | 93.8 | 81.2 |
| Corporation Tax | 1.3 | 0.8 |
| Deferred tax asset | 2.3 | 1.2 |
| Prepayments | 3.3 | 2.3 |
| Accrued income | 1.4 | 1.4 |
| Rent and other deposits | 0.4 | 0.1 |
| | 109.7 | 93.8 |

**Debtors: Amounts falling due after more than one year**

| | 2016 £m | 2015 £m |
|---|---|---|
| Amounts owed by Group undertakings | **14.5** | 12.0 |
| Total Debtors | **124.2** | 105.8 |

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

# Notes to the Accounts for the Year Ended 31 December 2016

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

| | Recognised 2016 £m | Unrecognised 2016 £m | Recognised 2015 £m | Unrecognised 2015 £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 | 1.1 | - | - | - |
| Net deferred income tax asset | 2.3 | - | 1.2 | - |

Reconciliation of movement on deferred tax asset:

| | 2016 £m | 2015 £m |
|---|---|---|
| At 1 January | 1.2 | 1.2 |
| Temporary differences arising in the period | 1.1 | - |
| Deferred tax asset at 31 December | 2.3 | 1.2 |

The Company has no unrecognised tax losses.

## 5. Creditors

**Creditors: amounts falling due within one year**

| | 2016 £m | 2015 £m |
|---|---|---|
| Trade creditors | 2.9 | 1.5 |
| Amounts owed to Group undertakings | 137.4 | 107.4 |
| Corporation tax | - | 1.6 |
| Other taxes and social security costs | 0.4 | 0.4 |
| Other creditors | 0.4 | 0.5 |
| Accruals | 9.0 | 6.1 |
| Deferred income | 4.1 | 3.4 |
| | 154.2 | 120.9 |

## 6. Interest bearing loans and borrowings

**Creditors: amounts falling due after one year**

| | 2016 £m | 2015 £m |
|---|---|---|
| Instalments due on bank loans | - | 4.6 |

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 Accordian (uncommitted) facility. At 31st December 2016 all amounts had been repaid (2015: £4.6m drawdown net of 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

**Creditors: amounts falling due after more than one year**

| Other payables | 2016 £m | 2015 £m |
|---|---|---|
| Other creditors | 0.1 | 0.4 |
| | 0.1 | 0.4 |

## 8. Provisions for liabilities and charges

| | 2016 £m | 2015 £m |
|---|---|---|
| Property leases | 0.3 | 0.3 |
| Other | - | 2.1 |
| | 0.3 | 2.4 |

**Movement in provisions:**

| | Provision 1 January 2016 £m | Arising during the year £m | Released during the year £m | Utilised during the year £m | Provision 31 December 2016 £m |
|---|---|---|---|---|---|
| Property leases | 0.3 | - | - | - | 0.3 |
| Other | 2.1 | - | (0.7) | (1.4) | - |
| | 2.4 | - | (0.7) | (1.4) | 0.3 |

**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 five 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 (2015: £0.3 million).

**Other**

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

## 9. Share capital

**Allotted, called up and fully paid**

| | millions | £m |
|---|---|---|
| Ordinary shares of 1p each | | |
| At 1 January 2016 | 81.3 | 0.8 |
| Issued on exercise of share options | 0.2 | - |
| At 31 December 2016 | 81.5 | 0.8 |

# Notes to the Accounts for the Year Ended 31 December 2016

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

1. 12,492 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 278.92 pence to 290.5 pence per share for an aggregate consideration of £35,182
2. 157,145 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £480,780.
3. In March 2016, 40,622 ordinary shares of 1p each were allotted to Gype BV as the first payment of the contingent consideration due as a result of the acquisition of Gype BV in 2015.

## 10. Commitments and contingencies

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

**Land and Buildings**

| | 2016<br>£m | 2015<br>£m |
|---|---|---|
| Within one year | 1.0 | 1.0 |
| After one year but not more than five years | 3.3 | 4.1 |
| More than five years | - | 0.2 |
| | 4.3 | 5.3 |

Post year end the Company has signed agreements under which the Company will relocate to a new Head Office in Maidenhead and be released from its existing rental commitments on their current head office building. £3.0 million of the commitments disclosed above are in relation to the current Head Office.

## 11. Share based payment plans

During 2016, the total share based payment charge amounted to £1.3 million (2015: £1.5 million). Of this amount, £0.2 million (2015: £0.3 million) has increased the cost of investment in subsidiaries as the relevant share based payments were granted to the employees of the subsidiaries. As the consolidated financial statements of SDL plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of disclosures relating to IFRS 2 Share Based Payments in respect of group settled share based payments.

## 12. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent Company is £67.9 million (2015: profit of £0.6 million). No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006.

## 13. 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 2016 £m | IFRS 2015 £m | IFRS 2014 £m | IFRS 2013 £m | IFRS 2012 £m |
|---|---|---|---|---|---|
| Turnover (notes 1 and 2) | 289.9 | 266.9 | 260.4 | 266.1 | 269.3 |
| Continuing turnover | 264.7 | 240.5 | n/a | n/a | n/a |
| Growth in total revenue | 9% | 2% | -2% | -1% | 18% |
| Operating profit before one-offs, depreciation and amortisation | 23.5 | 20.7 | 21.5 | 13.3 | 41.0 |
| Continuing operating profit before one-offs, depreciation and amortisation | 27.0 | 24.3 | n/a | n/a | n/a |
| Operating profit/(loss) | 5.2 | (25.1) | 9.7 | (24.0) | 27.7 |
| Profit/(loss) before tax | (15.8) | (25.2) | 9.4 | (24.4) | 27.4 |
| Profit/(loss) after tax | (18.1) | (30.7) | 6.6 | (27.9) | 20.9 |
| Non Current assets | 167.6 | 177.0 | 210.0 | 218.6 | 243.3 |
| Cash and cash equivalents | 21.3 | 17.2 | 22.1 | 18.2 | 28.5 |
| Net current assets less current liabilities | 5.9 | (0.6) | (8.7) | (17.9) | (10.3) |
| Total assets less current liabilities | 173.5 | 176.4 | 208.3 | 206.0 | 239.0 |
| Equity interests | 168.7 | 166.9 | 202.1 | 196.5 | 227.8 |
| Average number of employees (thousand) | 3.6 | 3.5 | 3.2 | 3.2 | 2.8 |
| Earnings per share – basic (adjusted for movements in capital) (notes 1 and 2) | (22.29)p | (37.93)p | 8.03p | (34.78)p | 26.12p |

Notes:

(1) 2012 – Acquisition of Alterian plc Group

(2) 2013 – Acquisition of Bemoko Consulting Limited

n/a – not available

# Corporate Information

**Directors**
David Clayton (Chairman)
Adolfo Hernandez (Chief Executive Officer)
Dominic Lavelle (Chief Financial Officer)
Chris Batterham
Glenn Collinson
Mandy Gradden
Christopher Humphrey
Alan McWalter

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Pamela Pickering

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