CREATE | TRANSLATE | DELIVER

THE CONTENT GLOBALISATION LEADER

ANNUAL REPORT 2018

Welcome to SDL

SDL plc is a leader in content globalisation. With our unique combination of language and content services and technologies, we help connect businesses, customers and stakeholders globally through personalised and relevant content.

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Further reading
Throughout this report you can find links to further detail within this document. You can also find more information on our website: **www.sdl.com**

Essential read

Q&A with Adolfo Hernandez, Chief Executive Officer

Strategy in focus

Financial review

Our strategic framework

Our purpose

To enable organisations to establish a connection with audiences worldwide, across all channels, languages, devices and touchpoints

We work with...

Over 4,500 enterprise customers

Including 90 of the world's top brands

And the majority of the largest companies in our target sectors

At a glance
Read more here.

To help them to...

Create, translate and deliver content globally

With our unique combination of...

Language Services

Language Technologies

And Content Technologies

Business model
Read more here.

We are building competitive differentiation by...

Innovating in language services

Developing next-generation technology and Artificial Intelligence

And combining our services and technology into solutions

Whilst transforming our operating model

To automate and streamline our processes and build a flexible and scalable operation

Operating model
Read more here.

To create further value for shareholders, our customers and employees by...

Growing total shareholders return

Improving customer satisfaction

And providing opportunities for our employees to learn and grow

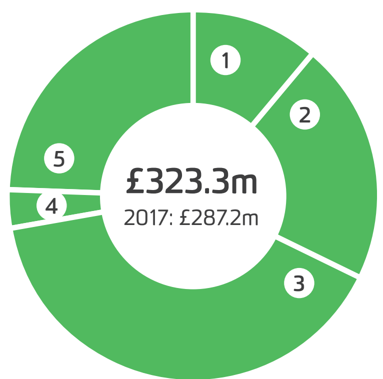
SDL at a glance

We operate in 39 countries

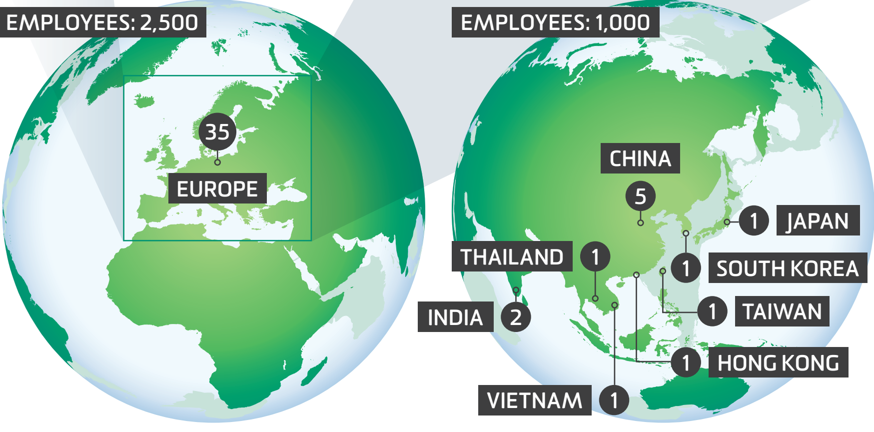
SDL is the global leader in managing and translating content with 59 offices across 39 countries.

Revenue by geography

(by location of customer)



1	UK	£36.7m
2	EMEA (excluding UK)	£68.2m
3	USA	£129.3m
4	Americas (excluding USA)	£10.4m
5	Asia Pacific	£78.7m



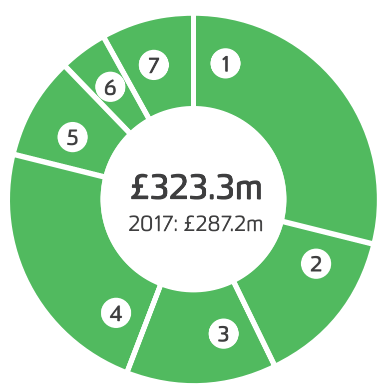
4,100+ employees

300+ partners

4,500+ enterprise customers

We work with 90 of the top 100 brands

Revenue by industry



1	High-tech	29%
2	Life sciences	14%
3	Retail / travel	13%
4	Automotive / manufacturing	23%
5	Financial services	9%
6	Government / defence	4%
7	Other	8%

Top 15
automotive companies

Top 14
IT and software companies

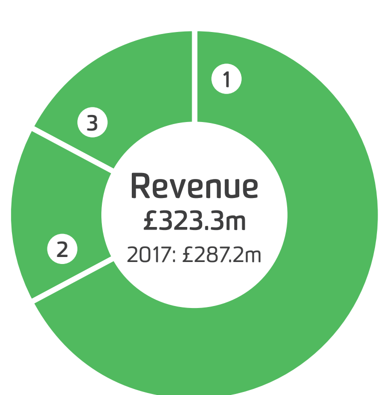
Top 11
consumer electronics companies

19/20
of the top pharmaceutical companies

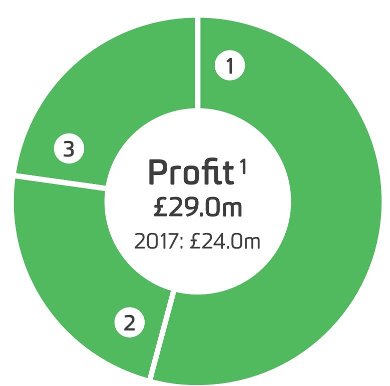
19/20
of the top banks

19/20
of the top law firms

Divisional performance



1	Language Services	£218.2m
2	Language Technologies	£49.8m
3	Content Technologies	£55.3m



1	Language Services	£23.0m
2	Language Technologies	£9.5m
3	Content Technologies	£14.9m

28 Our business and divisional performance
Read more here.

Note
1 Total adjusted operating profit – calculated as adjusted operating profit from each division less corporate costs of £18.4m.

1,300+
in-house linguists

180
languages

300bn
machine translated words annually

Performance highlights

Operational highlights

- Completed the acquisition of Donnelley Language Solutions to accelerate our growth in premium, regulated industries
- Premium Services revenues of £63.5m (2017: £40.1m)
- 220 cross-sell and up-sell deals (2017: 249)
- Repeat Recurring Revenue (RRR) in services of 97% (2017: 93%)
- Annual Recurring Contract Value (ARCV)[1] from technology of £68.5m (2017: £65.6m)
- Linguistic utilisation for December 2018 was 57% (December 2017: 53%)
- Investment of £29.8m on R&D and investment infrastructure
- Cost-saving initiatives delivered annualised savings of £10m in 2018

1 A reconciliation and definition of these measures is included on pages 175 - 176.

Financial highlights

Group revenue

£323.3m ↑12.6%

2018	£323.3m
2017	£287.2m

Group gross profit

£168.8m ↑12.2%

2018	£168.8m
2017	£150.5m

Operating profit

£18.9m ↑11.2%

2018	£18.9m
2017	£17.0m

Adjusted operating profit[1]

£29.0m ↑20.8%

2018	£29.0m
2017	£24.0m

Basic EPS

17.2p ↓53%

2018	17.2p
2017	36.8p

Adjusted basic EPS[1]

24.7p ↑22.9%

2018	24.7p
2017	20.1p

Operating cash flow

£38.8m ↑£35.3m

2018	£38.8m
2017	£3.5m

Adjusted operating cash flow[1]

£45.6m ↑221%

2018	£45.6m
2017	£14.2m

Net cash

£14.4m ↓37%

2018	£14.4m
2017	£22.7m

Dividend per share

7.0p ↑12.9%

2018	7.0p
2017	6.2p

1 A reconciliation and definition of these measures is included on pages 175 - 176.

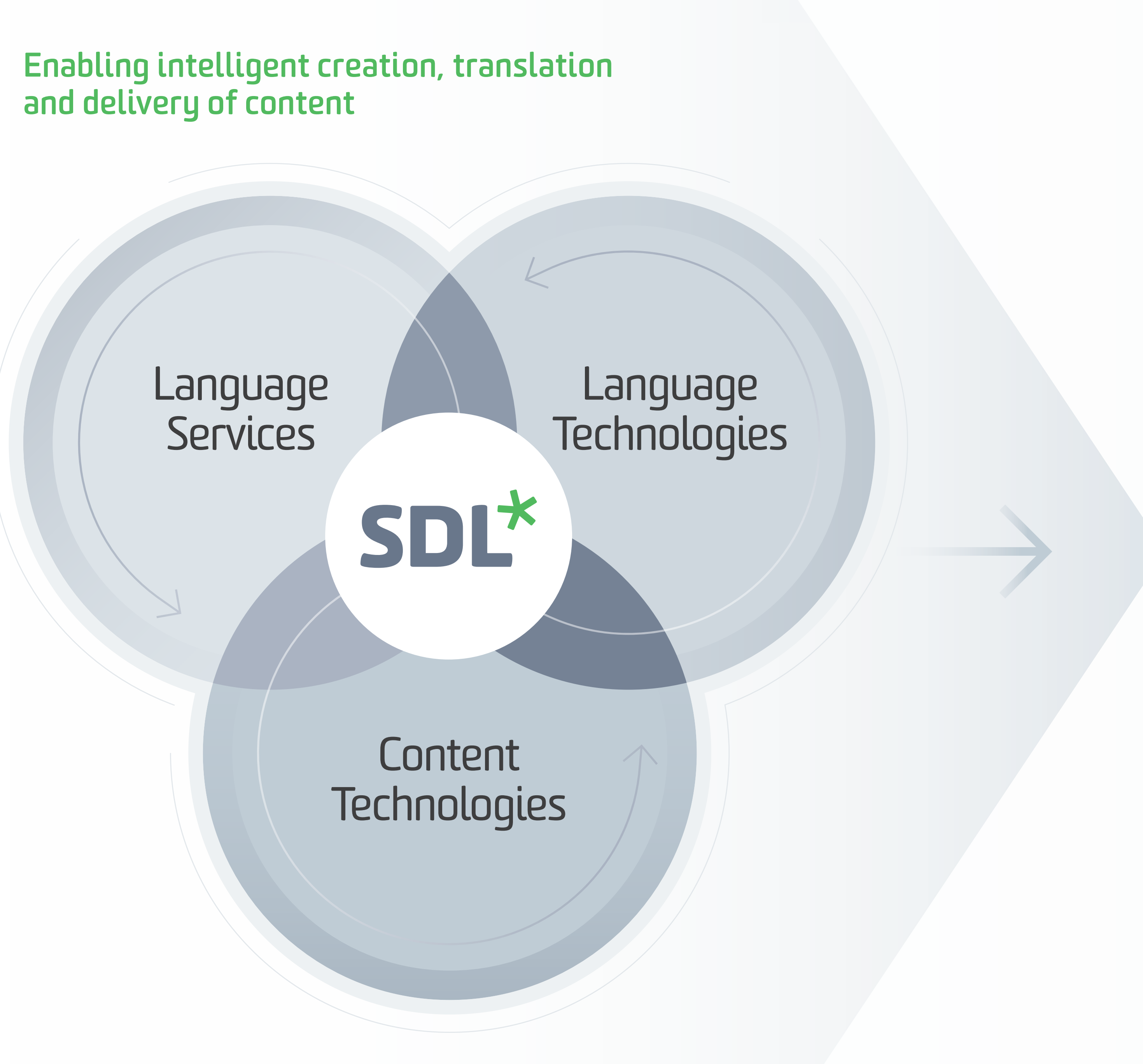
General notes
- Summarised information is for continuing operations.
- The Group has applied IFRS 15 using the fully retrospective method and as a result the comparative 2017 information has been restated.
- Adjusted profit and earnings measures exclude exceptional costs and amortisation of acquired intangibles.
- See financial notes for full information.

50 Financial review
Read more here.

Company overview

A powerful combination of services and technologies for content globalisation

Enabling intelligent creation, translation and delivery of content



For content to engage individuals around the world, organisations need the support of both linguistic insight and technology. Our solutions integrate expert language services with language and content management technology platforms, enhanced with sophisticated machine learning.

Create and manage

Translate and localise

Deliver and distribute

Language Services

£218.2m

2018 revenues

18 **Language Services** Read more here.

SDL is one of the world's largest Language Service Providers, with more than 1,300 in-house translators and a pool of over 17,000 freelancers and vendors. We make content relevant for global audiences and approach the challenge holistically by providing a full suite of services to meet the breadth and depth of our customers' needs.

OUR SERVICES INCLUDE

- Global Project Management
- Translation and Transcreation Services
- Media Production
- Language Testing and Consulting

Language Technologies

£49.8m

2018 revenues

20 **Language Technologies** Read more here.

SDL is the market leader in Translation Management software and Translation Productivity software and is a pioneer of Natural Language Processing Artificial Intelligence, which is applied in our Machine Translation and Linguistic AI platforms.

OUR TECHNOLOGIES INCLUDE

- Translation Management software
- Translation Productivity software
- Neural Machine Translation and Linguistic AI

Content Technologies

£55.3m

2018 revenues

20 **Content Technologies** Read more here.

SDL provides Structured Content and Web Content Management Systems, aimed at solving some of our customers' most complex global content challenges. We support our content technologies with professional services.

OUR TECHNOLOGIES INCLUDE

- Web Content Management software
- Structured and Technical Content Management software

Chairman's statement

Three years ago, we embarked upon a journey to improve significantly the operational performance of SDL

I am pleased to report on a year of good progress at SDL towards achieving our long-term aim of building the global leader in language and content management solutions.

DAVID CLAYTON
CHAIRMAN

The markets we serve remain attractive, as the challenge of communicating effectively in a personalised way is embraced by more of the world's companies. Whilst a key part of this personalised communication involves translation, the requirements of our customers are about far more than just changing words.

Our transformation journey

Three years ago, we embarked upon a journey to improve significantly the operational performance and scalabilty of SDL, such that we had the best possible products, systems, processes and people to ensure that we could deliver the best within our chosen markets. In 2017, whilst we made significant operational progress towards our goals, the complexity of re-engineering our business resulted in SDL not being able to achieve its financial targets at the same time.

I am pleased to say that the lessons learned have enabled us both to deliver further progress in achieving our operational goals and to meet the financial expectations of our various stakeholders and ourselves. This is reflected in a materially improved financial performance in 2018.

Our markets

Our markets continue to present us with lots of opportunities and we have been successful in keeping the business focused on the areas where SDL has a clear competitive advantage.

We believe that the inevitable consolidation of our highly fragmented industry will not necessarily be achieved by business combinations but by the establishment of standard platform-based solutions that will allow seamless interoperability across the localisation and content value chain. We have embarked on this strategy in 2018

from a position of considerable strength, although the full realisation of our vision is some years away.

Donnelley Language Solutions acquisition

Having said that we do not necessarily see industry consolidation through business combinations, we are constantly alert to finding opportunities which will act as strategic accelerators to our long-term plans. In this regard, our business combination with Donnelley Language Solutions (DLS) during the summer was a significant milestone for our two businesses.

I would like to use this report to welcome our new colleagues from DLS and to say that the team have already established themselves as significant contributors to accelerating the delivery of our strategic plans. I have no doubt that the technology solutions that the core SDL business can bring to DLS will enhance the overall customer delivery experience. However, just as importantly, the skills and experience DLS has in operating in highly regulated markets will enhance the overall capabilities of SDL.

People

I have been inspired by the tenacity and resilience our 4,100 employees across 39 countries and leadership have shown to deliver the excellent results in 2018. On behalf of the Board I would like to thank all our employees for that dedication and inspiration to keep our business moving forward.

Whilst much of this is down to individual efforts, I have no doubt that the clear and inspirational leadership given by our Chief Executive Officer, Adolfo Hernandez and his senior leadership team is a key factor. When Adolfo joined our business in April 2016, he quickly established our strategic objectives and defined the culture he wanted to create within the business. A key factor in our improving performance has been the clarity and consistency of those messages. In this regard our culture is a key part of what defines SDL. As a global business, we want to ensure that diversity is the fabric of our business.

This diversity extends to our Board where I remain pleased with the balance of skills and experience my fellow Directors bring to our deliberations. For example, among the Non-Executive Directors, we have extensive software industry experience, retail and marketing services skills, combined with strong financial and operational capabilities.

Long-term shareholder value

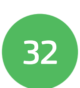
We have invested significantly in SDL's technology solutions and in our underlying technology infrastructure in recent years. This investment, when combined with the growing opportunities being presented by our chosen markets, gives us confidence that we have the right ingredients to create long-term shareholder value.

That being said, we are acutely aware of the potential macro-economic risks that a slowdown in global growth or a post-Brexit recession may have on the demand environment for our solutions. Whilst some of our demand is a function of structural changes within the end markets for many of our customers, there are parts of our business that see demand swings based upon specific end market conditions. Therefore, it is important that we manage expansion carefully and that we build on the natural operational leverage within our business.

Having funded the acquisition of DLS with a mix of cash and shares, and seen strong operating cash flow during the year, we end 2018 with a strong balance sheet. Notwithstanding some macro-economic uncertainty, we have confidence in the outlook and propose to maintain our progressive dividend policy by recommending an increase in our dividend by 13% to 7p.

David Clayton
Chairman

Our strategy
Read more here.



Business transformation programme
Read more here.

Governance
Read more here.

Final dividend

7.0p per share

2017: 6.2p per share

Free cash flow [1]

£31.6m

2017: £5.8m

1 A reconciliation and definition of these measures is included on pages 175 - 176.

Investment case

Focused on revenue opportunities and improvement in operating margins, SDL is targeting strong growth in earnings and cash flow

Building sustainable growth and long-term shareholder value

Large and growing addressable markets

We assess our addressable markets to be worth approximately £18bn. All our markets are growing. We are focused on increasing market share by building deeper relationships with customers and investing in innovation.

£18bn
size of addressable market

Source: £18bn addressable market (OC&C)

Market leading positions

SDL is a top 3 Language Service Provider by revenue and we are the leader in Language Technologies and Structured Content. We have a unique mix of services and technologies to meet our customers' most demanding global content challenges.

Top 3
Language Service Provider

Large, established client base

SDL is trusted by an exceptional customer base, including 90 of the world's top brands. In 2018, we served over 4,500 enterprise customers, 1,500 Language Service Providers and 14,000 translators.

90
of world's top 100 brands are SDL customers

Source: Top 100 brands (Interbrand)

Experienced and diverse management team

We have strength in depth across our leadership team and bring together a variety of industry backgrounds to create an innovative culture. We highly value and champion diversity and inclusion at SDL. Half of our leadership team are women.

51%
of our top talent are women

Investing in innovation

Building on our position of strength, SDL is making focused investments in next generation technology and solutions that will enable us to address new market opportunities and sustain and grow our differentiation in the market.

£25.2m
R&D cash spend in 2018

Attractive financial growth model

SDL delivers high levels of repeat and recurring revenues. We believe the achievement of our strategic objectives will support continued revenue growth and a steady improvement in operating margins. We are committed to a progressive dividend and maintaining a conservative level of debt.

21%
year-on-year growth in adjusted operating profit

Q&A with CEO, Adolfo Hernandez

It was a year of good financial delivery and further solid strategic progress. We were able to grow revenues and profits whilst also investing in innovation.

SDL Chief Executive Officer, Adolfo Hernandez discusses the Group performance in 2018 and addresses some common questions received from investors over the past year.

Q Can you give a brief overview of the Company and its operations?

SDL sells language and content services, technology and solutions, primarily to large enterprises, to help them solve the challenges of creating, translating and delivering content globally. We operate three divisions: Language Services, Language Technologies and Content Technologies. Over two thirds of our revenues are from services, with the remainder from technology. We sell globally and have operations in 39 countries and over 4,100 employees.

Q How do the different parts of the business work together?

Since late 2016, we have operated as 'One SDL', having brought together our customer-facing teams to present our full offering to our customers, as well as consolidating our back-office operations.

Our sustainable differentiation is in a combined technology and services approach. Firstly, our services are technology-enabled. For example, we use our own language technology, such as Neural Machine Translation (NMT) and SDL Trados Studio, internally to improve our service levels. Secondly, we integrate our offerings into bundles and solutions. We launched a number of these in 2018 and there are more to come in 2019.

Q What are the markets you address and what are their key dynamics?

Our traditional markets are the large Language Services markets, worth over £16bn, and Language and Content Technologies, worth a combined £2bn.

All our markets are growing, driven by the content explosion, the growth of global selling and digital transformation. The challenge our customers face is the same as ever: communicating effectively with their audiences. However, what is changing beyond all recognition is the speed, scale and precision needed to manage not just a simultaneous global product launch but to keep content constantly updated, on-brand, consistent and compliant. Customers are hungry for innovative solutions to address what we call the Global Content Operating Model.

Q What is the Company's strategic goal?

Our strategic goal is to be the leader in content globalisation, through a focus on product and service innovation, building deep relationships with our customers, optimising our operations and developing our people talent.

Q What kind of customers do you sell to and why do they buy from you?

The significant majority of our revenues are generated from large enterprises and we serve 90 of the world's top brands. We win and retain these clients because of our scale, quality and technology-enabled approach. We also sell Translation Productivity software to other Language Service Providers and to individual translators, who choose our products because they are market-leading and improve their efficiency and quality. A key focus for us since 2016 has been increasing customer satisfaction and our customer Net Promoter Score.

Q Can you describe SDL's value proposition?

Our core value proposition is to enable our enterprise customers to generate revenue through more relevant content and to manage the associated risks and costs. We add value at multiple parts of the content value chain and the more integrated services and technologies that are bought by a customer, the more value we can add. For example, by using our global translation services, a customer no longer has to buy from local agencies. Then by also using our language technologies, projects can be shared directly with us and monitored by the client, whilst our terminology software enables brand consistency. If, in addition, the customer uses our Marketing Solutions, we are able to execute the creation and delivery of assets from digital media through to print. This focus on technology, scale and quality provides a more effective solution for our clients.

Q How competitive are your markets and have there been any material changes to the competitive landscape in the last year?

The language services market is highly fragmented with a small number of larger players – we rank as number 3 – and a long tail of mostly local agencies. The competitive dynamics have not changed substantially in the last year but we do see trends such as consolidation and an increasing focus on specialist segments, such as financial services and life sciences, as evidenced by our acquisition of DLS this year.

In our technology markets, we are leaders in language technologies and structured content but we do not take that position for granted and continue to innovate.

The Web Content Management market (SDL Tridion Sites) remains our most competitive technology market – our launch of SDL Tridion DX has been an important step in positioning the product for the future.

Q What advantage is there for SDL in investing in its own Machine Translation (MT) technology?

We are building MT technology to support specific customer needs, whilst vendors such as Amazon, Google and Microsoft are building generic technology. We use MT internally, learning from our own data, to optimise our translation production and we are also using machine learning expertise in new ways, such as content analysis, to build the most effective LSP in the market.

Q 2018 was a key year for implementing your business process automation programme, Helix. Has it gone to plan so far and what more can we expect in 2019?

Our primary focus in 2018 was on the highly complex task of transferring projects onto the Helix platform with 60% of our addressable accounts connected to Helix by the end of the year.

In 2019, we will continue to transfer volumes onto Helix, strengthen our business insights and start integrating DLS onto the platform. Helix has more financial and operational benefits to offer us in 2019 and beyond.

Q Tell me more about the acquisition of DLS. What was the rationale and how has it performed since acquisition?

The acquisition accelerated our growth in regulated industries, particularly financial services and life sciences. The businesses are highly complementary from several perspectives: culture, customers, offering, geography and business and operating models. We believe we paid a fair price, equivalent to 1x 2018 pro forma sales. The acquired business performed to plan as part of the enlarged Group, with no material business disruption encountered.

Q Do you think you are likely to undertake more acquisitions in the future?

SDL's growth strategy is primarily organic but with the potential to be complemented by acquisitions. Consolidation is a feature of our markets and we will look at businesses that accelerate our strategic objectives.

Q What is the focus of your investment in your technology products and what impact do you expect it to have?

In 2018, the main focus of investment was the launch of SDL Trados Studio 2019, SDL Tridion DX and the development of our NMT and Linguistic Artificial Intelligence (AI) platforms. In 2019, you will see more from our next generation Language Cloud platform, the industry's first true end-to-end and AI-enabled platform for the translation market. Our industry will be transformed by technology and we are determined to be a leader and beneficiary of that trend.

Q You have announced further operational cost savings by 2020; what do these comprise of and what will the impact be?

During 2018 we undertook a further analysis of our enlarged operating cost structure and determined that we could drive additional annualised savings of at least £8m by 2020 through back-office streamlining and process standardisation and automation.

Q What do you see as the key risks to your business over the medium and long-term?

In the medium-term, our key business risks are our ability to retain and grow our top clients. Our strategy seeks to achieve this through a focus on account management, service quality and innovation. In the long-term, we foresee elements of our business, revenue and operating models potentially changing as a result of technology automation, including NMT. Our strategy is to benefit directly from the advent of these new technologies as well as to build added value services and solutions that go beyond the translation task and solve the complex, organisational challenges of content globalisation.

Business model
Read more here.

Market overview
Read more here.

Our strategy
Read more here.

Risk management
Read more here.

Our business model

We operate a profitable and scalable model that creates value for our stakeholders

Market needs

Create and manage

We help customers create, manage and organise their global content.

Translate and localise

We help customers translate, transcreate and localise content.

Deliver and distribute

We help customers deliver consistent content across channels and touchpoints globally.

Our offer – the divisions

Language Services

18 Read more here.

HOW

A global network including over 600 project managers, 1,300 in-house translators, 230 desktop publishing engineers and 17,000 freelance translators. We use our language technology to drive productivity.

CUSTOMERS

Over 2,000 customers in the key sectors of automotive, high tech, life sciences, financial services and retail and travel.

REVENUE MODEL

Service fees based on variables including volume, content type and service level.

Language Technologies

20 Read more here.

HOW

Our Language Technologies automate all parts of the translation supply chain, enabling improved productivity and quality for enterprises, Language Service Providers and translators.

CUSTOMERS

Over 19,000 customers (including freelancers) in the key sectors of automotive and manufacturing, financial services, government and defence, high tech, life sciences and retail and travel.

REVENUE MODEL

Technology licence fees, hosting fees, support and maintenance fees, professional service fees.

Content Technologies

20 Read more here.

HOW

Our Content Technologies enable customers to manage structured and unstructured content for delivery across all devices, touchpoints and languages.

CUSTOMERS

Over 400 customers in the key sectors of automotive and manufacturing, financial services, government and defence, high tech, life sciences and retail and travel.

REVENUE MODEL

Technology licence fees, hosting fees, support and maintenance fees, professional service fees.

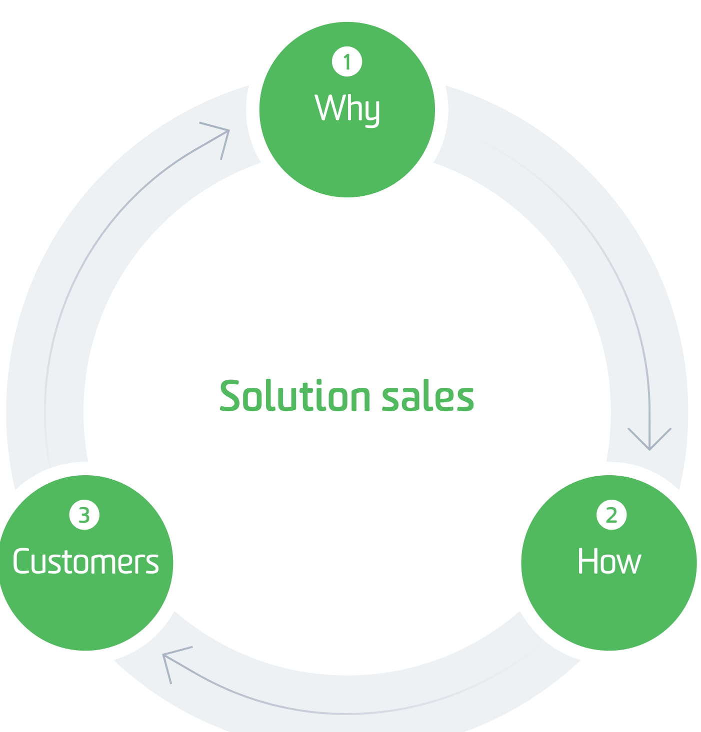
Organisational transformation

Improving the way we do business

Modernising our operations to improve efficiency and effectiveness.

Through our unique combination of services, technologies and global infrastructure, we help our customers create, translate and deliver content globally, in support of their business goals.

Combining our offer for more competitive advantage



1. Drive revenue from the combination of our services and technology by solving customers' problems in a differentiated way.
2. Build the right combination of technology and service to meet the needs of high value segments.
3. Opportunities across our whole customer base via direct sales and partners.

Standardising, automating and centralising back-office functions through technology and optimising supplier relationships.

Reducing our operating overheads as percentage of sales.

Value creation

Our business model creates sustainable value for all stakeholders. For the year ended 31 December 2018 we:

Generated free cash flow of

£31.6m

Paid dividends of

£5.1m

Paid down debt of

£14.4m

Funded investment[1] of

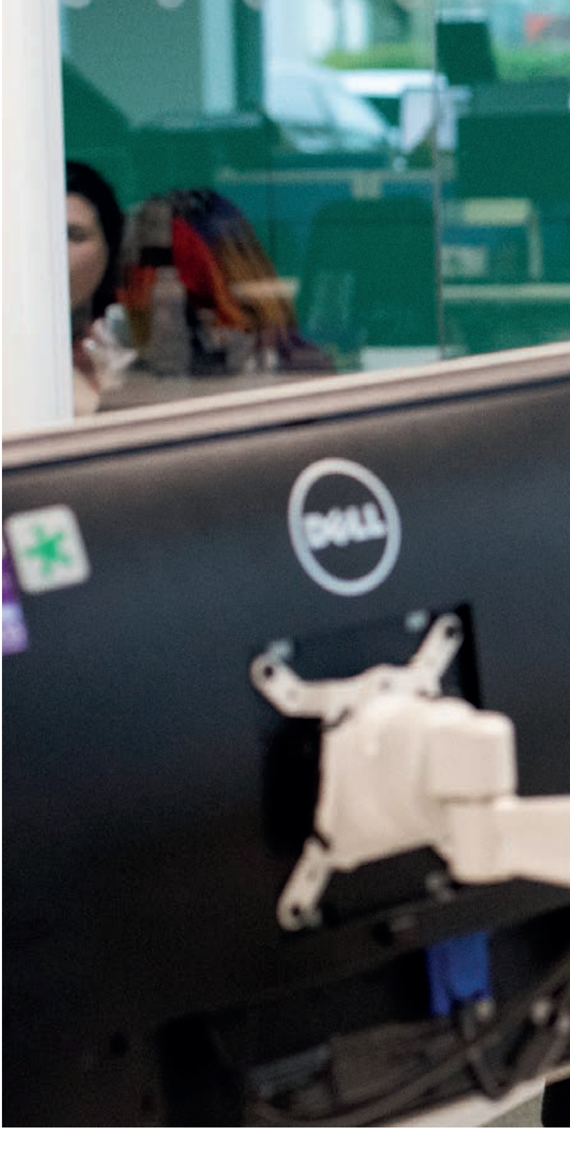
£29.8m

Value created benefits all stakeholders; customers, shareholders, employees and the wider community.

1 R&D spend (£25.2m) and investment capital (£4.6m) expenditure.

Our business model continued

Language Services



SDL provides high-quality, scalable and secure translation solutions for every language challenge. Whether the challenge is one of local market expertise or one of translating incredible content volumes, our network of in-country linguists and technology help organisations reach more customers faster.

What we offer

SDL offers a full ecosystem of localisation services. From NMT to transcreation, SDL offers the translation services and technology to handle all types of content.

- Translation Services
- Neural Machine Translation (NMT)
- Interpreting
- Transcreation
- Localisation Process Consulting
- Testing Services
- Media Production Services

How we engage with customers and generate revenues

Most of our customers work with us via multi-year framework agreements. Whilst these do not guarantee volumes, we develop close relationships that mean we deliver high Recurring Repeat Revenues (RRR). Pricing is determined with reference to a menu of services, languages, translation methodology and service levels.

Building differentiation through expertise and technology

A valuable people resource

SDL is the only Language Service Provider to employ more than 1,300 in-house linguists. More than just linguistic experts, they are local residents who are well-versed in the nuances of their language and culture. Our in-country offices also recruit and manage top freelance talent – with more than 17,000 freelance and vendor resources to help scale for peak requirements and provide additional subject matter expertise.

A centralised translation model and focus on quality

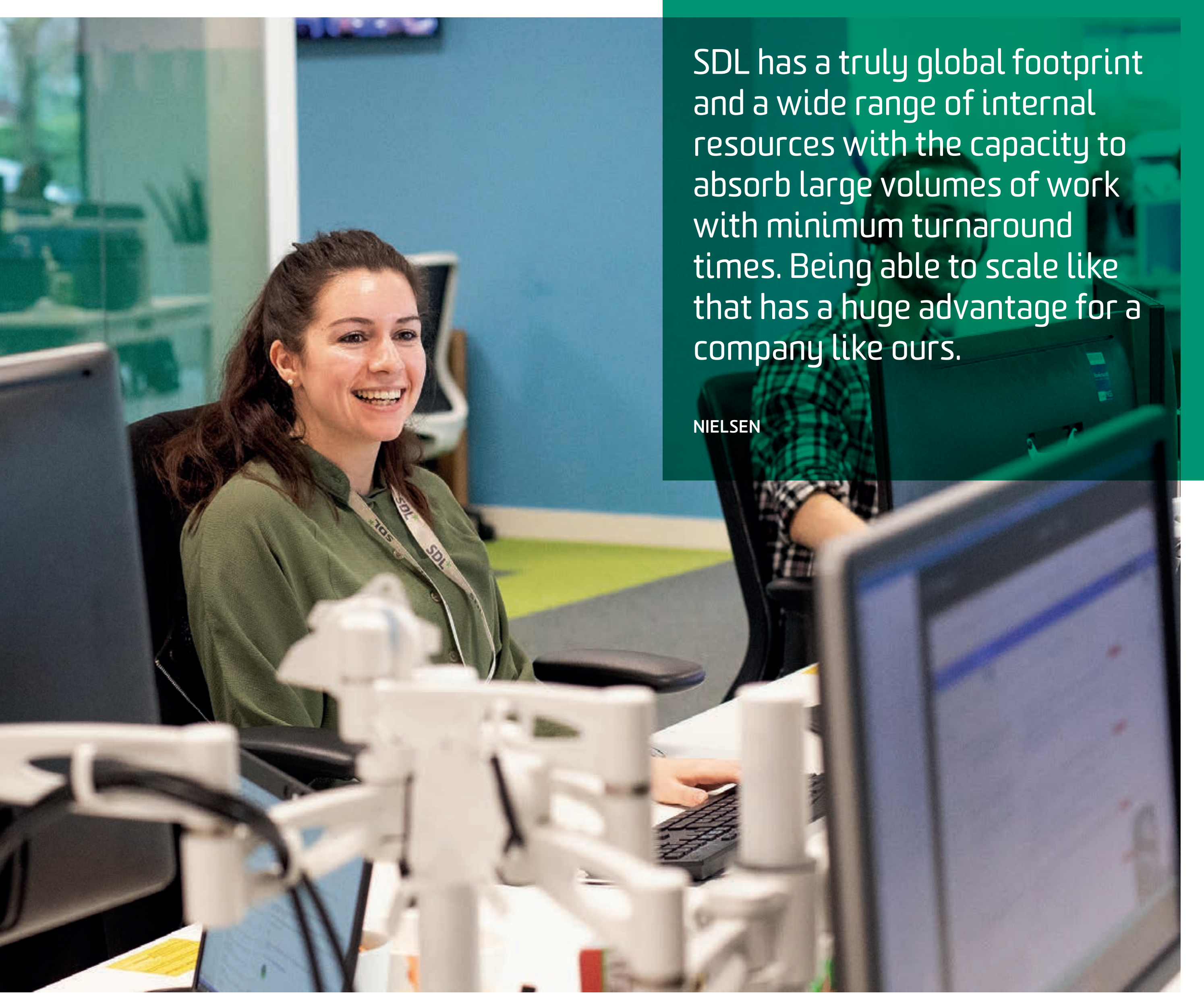
Many companies rely on a mix of vendors, which can lead to higher costs and lower quality. Centralising language translations with SDL means translations are handled with a consistent and repeatable quality process, to ensure accuracy, fluency, tone of voice, terminology and branding.

Technologies that underpin productivity and quality

SDL uses our own language technologies, including Translation Management, Translation Productivity and NMT to optimise quality and efficiency. In addition, SDL has invested in business process automation and data insights platforms designed to reduce significantly the administrative burden and support an agile, data-driven operating model.

1,300+
in-house linguists

300bn
machine translated words annually



> SDL has a truly global footprint and a wide range of internal resources with the capacity to absorb large volumes of work with minimum turnaround times. Being able to scale like that has a huge advantage for a company like ours.
>
> NIELSEN

17,000
freelancers and vendors

2.6bn
professionally translated words annually

TREND IN FOCUS

Continuous localisation – a new approach to global content production

As the world speeds up in every aspect, localisation must become a more agile process. With constant updates to product versions and websites and dynamic content, real-time localisation is essential. Unlike the traditional localisation process, continuous localisation occurs when changes in content trigger a need for an update to a subsection, rather than an update of the whole text. Continuous localisation requires a high-degree of technology integration to achieve efficiencies, from connectors to workflow to translation productivity tools. Our combination of services, expertise and technologies positions us well for this growing trend.

Our business model continued

Language Technologies and Content Technologies

The challenges of the global content supply chain can only be solved with a strong technology underpinning. SDL's proprietary language and content technologies bring best-in-class features and capabilities to solve complex tasks in the creation, translation and delivery of global content. As processes become less siloed, we believe SDL's unique combination of technologies and connectors across the supply chain will be a competitive advantage.

Enabling the translation supply chain with Language Technologies

What we do

- Translation Management software enables enterprises to manage, automate and control the complex localisation process.
- Translation Productivity software enables enterprises, Language Service Providers and translators to execute translation processes with the best tools.
- NMT and Linguistic AI uses leading-edge machine learning to translate, analyse and transform enterprise content securely and at scale.

Enabling enterprise-level content management with Content Technologies

What we do

- Web Content Management software enables enterprises to deliver rich web experiences globally at scale.
- Structured and Technical Content Management software enables standards-based structured authoring of content based on complex and sometimes mission-critical documents.
- Furthermore our 'Digital Experience' (DX) delivery platform unifies both structured content and web content management to enable consistent content across all parts of the customer journey.

200+
software engineers

95
patents granted 25 pending

£25.2m
R&D spend

100+
connectors

How our technologies fit together

Create

Structured and Technical Content
- SDL Tridion Docs
- SDL Tridion Sites
- SDL Contenta
- SDL XPP

Translate

Translation Management
- SDL Managed Translation
- SDL Translation Management Systems (TMS and WorldServer)
- SDL MultiTrans
- SDL WorldServer

Translation Productivity
- SDL Trados Studio
- SDL Trados GroupShare
- SDL Passolo
- SDL MultiTerm

Machine Translation
- SDL Enterprise Translation Server
- SDL BeGlobal

Deliver

Web Content Management and Digital Experience
- SDL Tridion Sites
- SDL Tridion DX (Sites and Docs)
- SDL Contenta
- SDL XPP

Solutions

By combining our services and technologies, we can create powerful and differentiated solutions to meet a wide range of global content use cases. This marks a big shift for SDL, as we no longer think about discrete tasks but, instead, how to solve our customers' content-related business challenges. We will continue to expand our solution packages in 2019, aligned with our focus on high value use-cases.

Solutions for target industries

Solutions for target buying centres

Solutions for new use cases

Our solutions and use cases

SDL Secure Supply Chain

WHAT IT DOES

Secure and ultra-secure translation of sensitive documents.

KEY SECTORS

Aerospace and defence, financial services, life sciences and legal.

SDL Multilingual Submission Management

WHAT IT DOES

Global regulatory submission management.

KEY SECTORS

Life sciences, aerospace and defence.

SDL Multiligual Website Solution

WHAT IT DOES

A managed service for multilingual websites, including hosting, localisation, content management and analytics powered by machine learning.

KEY SECTORS

Any company that wants a multilingual web presence.

SDL Multilingual eDiscovery Solution

WHAT IT DOES

Instant, secure translation and analysis of foreign language content in any format.

KEY SECTORS

Legal services, law enforcement, government agencies and compliance teams.

SDL Accessibility Solution

WHAT IT DOES

Helps maintain compliance with global regulatory accessibility standards.

KEY SECTORS

All organisations subject to accessibility compliance regulations.

Our customers

Writer productivity and documentation quality taken to a new level

RESULT

Linde MH realised a dramatic improvement in documentation consistency and decreased writer errors using SDL Tridion Docs' guided workflows. Efficient translation is achieved using SDL Language Services and SDL Trados Studio's translation memory.

SDL DELIVERY

Linde MH decided to outsource its language translations entirely to SDL and implement SDL Tridion Docs as its component content management system (CCMS) and SDL MultiTerm as a bilingual terminology management application.

KEY FACTS AND FIGURES

- 90% translation time reduction
- 26 languages
- 5-7m words per year
- 6,000 terms in SDL MultiTerm

OFFERING

- SDL Language Services
- SDL Tridion Docs
- SDL Trados Studio
- SDL MultiTerm

90%
translation time reduction

26
languages

Tailored compliance and accessibility solutions

RESULT

SDL provides a one-stop multi-service language and content management solution to meet high compliance and regulatory requirements, improving turnaround time of accessibility and 508 compliance requests.

SDL DELIVERY

SDL worked with the client to establish an accessibility strategy with a dedicated 508 compliance team to ensure a prompt and effective delivery in line with the regulation.

KEY FACTS AND FIGURES

- 153m+ words translated in 2018
- 300% more volume versus 2017
- 99%+ on time delivery with 30%+ rush requests
- Reduced time-to-market
- Compliance with regulatory requirements

OFFERING

- SDL Language Services
- SDL Accessibility Solution
- SDL Multiligual Website Solution
- Healthcare market expertise

153m+
words translated in 2018

300%
more volume in 2017

Transcreation and international SEO for a premium brand

RESULT

SDL helps Bose adapt their English SEO strategy for target markets with culturally relevant local keywords and a nuanced tone to improve their digital footprint and customer experience.

SDL DELIVERY

SDL supported Bose with a local brand refresh to build a greater emotional connection with audiences. This helps Bose to stand out in an increasingly competitive marketplace and maintain their position as a leader in multiple offerings.

KEY FACTS AND FIGURES

- 35-40% increase in organic search traffic
- SEO and natural search integration

OFFERING

- SDL Marketing Solutions

35-40%
increase in search traffic

Better user experience equals better traffic and conversion rates

RESULT

With SDL Tridion Sites, the launch of the US website took only 16 weeks, doubling traffic and conversion rates, but most importantly the user experience and service reflecting China Airlines' mandate to put the customer first.

SDL DELIVERY

Thanks to SDL Tridion Sites' content management and component-based publishing solutions, China Airlines drastically simplified its day-to-day web operations, streamlined publishing and updating content more efficiently, with less dependence on IT for implementation.

KEY FACTS AND FIGURES

- 12 sites in 11 languages
- 100% increase in traffic
- 90% increase in conversion rates
- 16 weeks to launch the US website

OFFERING

- SDL Tridion Sites

12
sites in 11 languages

100%
increase in traffic

Group-wide enterprise translation and terminology management solution

RESULT

SDL supports BMW to consolidate and centralise existing language assets in 37 languages to scale and support the agility needed to deliver unique customer experiences.

SDL DELIVERY

SDL launches group-wide enterprise translation and terminology management solution at BMW.

KEY FACTS AND FIGURES

- 22 integrations to Content Management Applications
- Up to 13,000 active projects
- 52m+ translation units in 537 translation memories
- 24,000 entries in SDL MultiTerm and 40,000 concepts in source German
- 37 languages

OFFERING

- SDL WorldServer
- SDL MultiTerm Workflow
- SDL Professional Services

37
languages

13,000
active projects

Lower costs, higher quality and efficiency

RESULT

SDL centralises Zoho's localisation needs so that they can reach their ever-growing international customer base with a consistent brand message and voice.

SDL DELIVERY

SDL localises online products through one centralised solution to boost traffic and conversions from an ever-growing international customer base.

KEY FACTS AND FIGURES

- 12 languages (soon to be 15)
- 50% increase in monthly active user base
- 40m users worldwide

OFFERING

- SDL Managed Translation
- SDL Language Services

40m
users worldwide

12
languages (soon to be 15)

Market overview

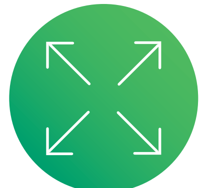
Responding to changing client demands

SDL has operated in its markets for 27 years. We estimate our addressable markets to be worth over £18bn. Of this, our addressable market for Language Services is worth over £16bn and our technology markets over £2bn. All our markets are growing but customer demands are changing as they seek to communicate effectively with their stakeholders globally across different channels and touchpoints, in ways that are manageable, consistent, relevant and accessible.

The key macro trends that our business seeks to benefit from are

Growth of global selling

Our customers operate in many countries and want to get to their audiences faster and more effectively. Digital platforms are the foundation of this change. SDL's technologies and services help businesses communicate with stakeholders all around the world in over 180 languages.



Content explosion and fragmentation

It has never been easier to create and disseminate content but with more content creators, repositories, formats and channels, harnessing the power of content is a challenge – even more so across all business departments and in all target languages. SDL helps businesses create, translate and deliver their content at scale across multiple channels.

Digital transformation

Enterprises are undertaking digital transformation programmes to re-engineer business processes centered on the digital customer journey. The global content lifecycle is a key pillar of digital transformation, requiring once-siloed processes to be managed holistically. SDL works with its customers to optimise their global content operating models.

SDL THOUGHT LEADERSHIP

The Global Content Operating Model: Managing content globally and strategically
The right content drives the customer journey and unifies each and every customer touchpoint. However, to manage this content on a global scale across channels in multiple languages requires a new approach. The Global Content Operating Model (GCOM) provides a comprehensive strategic approach to managing content across departments by unifying platforms and processes to address global content creation, translation and delivery.

Five Future States of Content
In 'Five Future States of Content' we set out how we think Artificial Intelligence and machine learning will soon impact how businesses create, manage, translate and deliver content to global audiences. Companies will need to adopt the latest advances in technology while understanding how and what content customers consume. We look at scenarios with emerging technologies where Content Will Create Itself, Content Will Be Agile, Content Will Organise Itself, Content Will Be Secure and Content Will Be Your Best Sales Person.

There are also a number of micro trends that impact our business and which we are targeting with new solutions

1 Complexity is rising

CHALLENGE

Content volumes are rising; and there is fragmentation of content types, formats, channels and repositories. The number of countries and languages being operated in is rising and time to market requirements are becoming shorter.

OUR SOLUTION

SDL is solving these problems with our global scale, expertise and investments in technology.

2 Use cases are growing

CHALLENGE

Content is being produced in all parts of an organisation, such as in marketing, product development, HR, finance and legal departments. Certain industries, such as financial services and life sciences have additional specific requirements.

OUR SOLUTION

SDL builds content solutions that solve the business problems of specific industries and user groups and we work strategically with organisations to build their Global Content Operating Model.

3 Processes are becoming agile

CHALLENGE

All processes within the 'create, translate, deliver' chain are moving from singular projects to continuous, agile workflows. The 'new normal' is a constant flow of daily content updates.

OUR SOLUTION

SDL's technologies and services enable agile processes and workflows to create, translate and deliver content. AI will increasingly add prediction and intelligence to these processes.

4 Digital experiences must be consistent

CHALLENGE

Enterprises need to ensure consistency of end user experience across different touchpoints and throughout the pre-sales, sales and post-sales cycle.

OUR SOLUTION

SDL's Tridion DX content management platform enables enterprises to unify previously siloed content and deliver consistent digital experiences.

5 Artificial Intelligence adoption is increasing

CHALLENGE

Advances in neural machine learning algorithms, increasing processing power and the availability of data are driving a revolution in AI, including in the fields of MT and Natural Language Processing.

OUR SOLUTION

SDL continues to invest in NMT and its Linguistic AI platform. We deploy AI internally at SDL as well as sell the software to our customers.

6 Content risk must be managed

CHALLENGE

Content risk management must be treated as an integral part of the content lifecycle. This extends to regulatory compliance, brand consistency and handling of personal data.

OUR SOLUTION

SDL helps manage risk through secure translation solutions, eDiscovery, quality assurance and through our regulated industry solutions.

£18bn
total addressable market

£16bn
addressable Language Services market

£1.7bn
Web Content Management market

£300m
Language Technologies market

Chief Executive Officer's review

By achieving our strategic objectives, we aim to build a business with sustainable competitive advantage and to transform the financial performance of the business

It was a year of good financial delivery and further solid strategic progress. We were able to grow revenues and profits whilst also investing in innovation.

ADOLFO HERNANDEZ
CHIEF EXECUTIVE OFFICER

Our strategic objectives at a glance

Build deep relationships with our customers

HOW WE WILL ACHIEVE IT

- Account management
- A relationship approach
- Sector expertise
- A focus on customer experience

36 Read more here.

Be the world's best Language Service Provider

HOW WE WILL ACHIEVE IT

- Quality
- Scale
- Innovation
- Customer focus
- Our people and partners

38 Read more here.

Be the leader in Language and Content Technologies

HOW WE WILL ACHIEVE IT

- Investment in integrated, innovative and AI-enabled technology platforms

40 Read more here.

Our strategy

SDL's strategy is to become the 'Content Globalisation Leader' by deploying our global services and technology platforms to help customers create, translate and deliver their content globally. We have six long-term strategic objectives that support this aim. These are:

1. Build deep relationships with our customers

SDL works with many of the world's largest companies and we believe there are significant opportunities to grow our revenues by deepening our strategic relationships with these customers. Through a focus on account management, in 2018, we grew our top 10 customer accounts in the organic SDL business by 9% to a total of £74m and we completed 220 cross-selling or up-selling deals. In 2019, we remain focused on strategic account management and taking a collaborative approach to working with our customers.

2. Be the world's best Language Service Provider

In our view, leadership in the Language Services industry will depend on scale, quality and technology-enabled innovation. In 2018, SDL was the number 3 LSP by pro forma revenues. We added further expertise and geographic coverage through our acquisition of DLS and we invested in our business automation platform and translation tools. In 2019, we will bring further innovation to the market, focusing on data-powered decisions and the industry trend towards 'continuous localisation', supporting our customers' demanding requirements for fast turnaround times and high quality.

3. Be the leader in Language and Content Technologies

In 2018, we invested in modernising our language and content technology platforms, with key launches in the year including SDL Tridion DX, SDL NMT 2.0 and SDL Trados Studio 2019. In 2019, our primary focus is on the release of SDL Language Cloud, our next generation, AI-enabled end-to-end localisation platform. We will also be building applications on our Linguistic AI platform, such as SDL Content Assistant.

4. Be the leader in content solutions in our target premium sectors

We believe there is a significant growth opportunity in offering content solutions in our target sectors, which include financial services, life sciences, legal services and marketing. These solutions combine SDL's specialist services and delivery model with our language and content technologies. In 2018, we sold and launched a number of such solutions, including SDL Multilingual eDiscovery and SDL Multilingual Website Solutions and SDL Accessibility Solution. In 2019, we plan to launch further packaged solutions for regulated markets.

5. Enable our people to be their best

Located in 59 offices around the world, over 4,100 SDL employees provide the fuel that propels the execution of our strategy. In 2018, we strengthened our leadership and training programmes, aligned employees and performance around our strategic objectives and introduced agile working practices. In 2019, we will continue to invest in developing a culture which is diverse, inclusive, open and socially-responsible and one which allows our employees to reach their potential.

6. Achieve our target operating model

Since 2016, we have been re-engineering SDL's operations across Language Services, sales and marketing and our back office. Our goal is a modern, streamlined, scalable and flexible operating platform. Starting in Q4 2017, we undertook a cost restructuring that delivered underlying cost savings of £10m. In addition we plan to reduce gross administrative costs by at least £8m on an annualised basis by the end of 2019. Our long-term goal is to reduce total operating costs to 40% of revenues (2018: 43%).

Our financial goals

By achieving our strategic objectives, we aim to build a business with sustainable competitive advantage and to transform the financial performance of the business. We are seeking to increase annual revenue growth to high single digits and to increase adjusted operating margins by approximately 1-2 percentage points each year by balancing efficiency gains with re-investment in our innovation programmes and sales activities. We seek to generate good operating cash flow conversion, maintain net debt to EBITDA below 1.5x and pay a progressive dividend.

Be the leader in content solutions in our target premium segments

HOW WE WILL ACHIEVE IT

- Align our technology and services to solve customers' global content challenges

Read more here.

Enable our people to be their best

HOW WE WILL ACHIEVE IT

- Focus on leadership, alignment, growth and enablement, recognition and employee experience

Read more here.

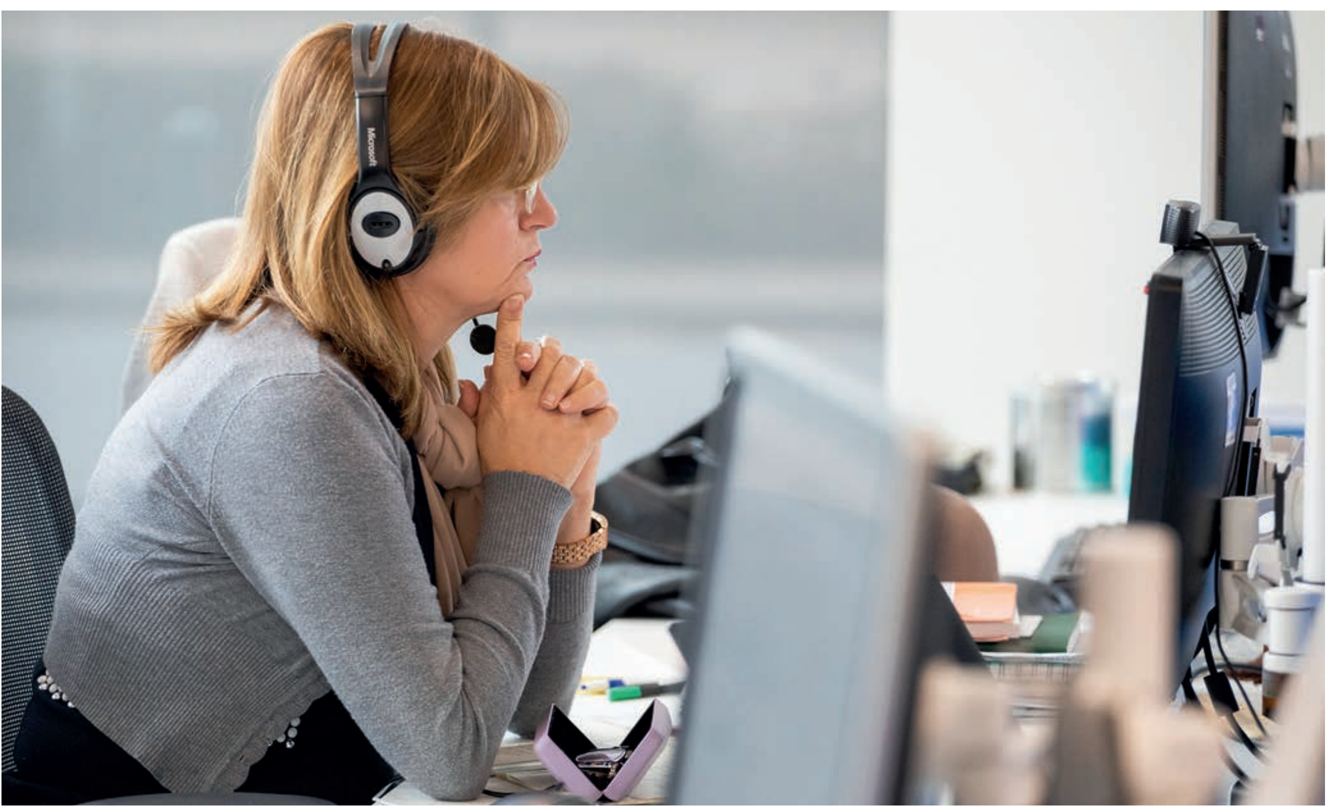
Achieve our target operating model

HOW WE WILL ACHIEVE IT

- Investing to build a modern, scalable and flexible operating model

Read more here.

Chief Executive Officer's review continued



Language Services revenue

£218.2m

2017: £184.5m

Language Technologies revenue

£49.8m

2017: £49.0m

Content Technologies Revenue

£55.3m

2017: £53.7m

1 A reconciliation and definition of these measures is included on pages 175 - 176.

Business and divisional performance

Language Services

Language Services financial performance

Language Services delivered organic [1], constant currency revenue growth of 5.2% to £190.8m and total revenues, including the acquired business, of £218.2m (2017: £184.5m). Organic gross margins rose to 42.5% (2017: 40.5%) primarily driven by productivity gains, and total gross margins were 42.0%. Organic adjusted operating profit for the period was £21.2m (2017: £18.9m) and total adjusted operating profit including DLS was £23.0m, representing a margin of 10.5% (2017: 10.2%).

Language Services automation and productivity

We took a number of actions throughout 2018 to improve operating efficiencies, the impact of which is mainly seen in an improved organic gross margin. These actions included greater use of project management resources in lower cost regions, control of external supplier costs and higher in-sourcing and use of NMT.

We rolled out 'Helix', our business process automation platform, which is designed to reduce substantially the administrative burden of project and translation processes and to improve real-time data insights. By the end of the year, 60% of our addressable accounts were on the Helix platform. Our Linguistic Utilisation improved to exit the year at 57% (2017 exit rate: 53%).

In 2019, our focus in Language Services is on increasing our penetration of our existing customer base; cementing our growth in regulated industries and optimising productivity, automation and business insights. We will start to integrate parts of former DLS's delivery model with SDL's operating platform, to leverage our in-house translators and our automation and insights platforms. Although subject to variables such as customer and regional mix, we would expect to see further gross margin improvements in Language Services in 2019.

Language Technologies

Language Technologies financial performance

Language Technologies delivered organic, constant currency revenue growth of 1.7% to £49.4m (2017: £49.0m) and total revenues, including DLS, of £49.8m. Organic gross margins reduced to 78.5% (2017: 79.6%) due to the sales mix, and total gross margins were 77.9%. Adjusted operating profit for the period was £9.5m (2017: £10.2m), representing a margin of 19.1% (2017: 20.8%), including net capitalised R&D of £3.2m (2017: £0.7m).

The division includes three product groups: Translation Management Systems, Translation Productivity and Machine Translation. The MultiTrans product acquired as part of the DLS acquisition is included in the Translation Management System product group. R&D spend in this division included £7.2m of investment in MT and AI, of which £1.3m was capitalised.

Translation Productivity

Translation Productivity sales rose by 4.2% at reported rates and 4.5% at constant currency. In 2018, our key goals were to revitalise growth in some of our established parts of the business, accelerate sales in some new territories and continue to establish our cloud footprint.

We successfully grew Germany, our most established market, by 4% and saw strong growth in new markets including Korea, India and China. We delivered a number of major product launches, including SDL Trados Studio 2019 and a significant upgrade to SDL Trados GroupShare. At the end of the year, we introduced next-generation Language Cloud Terminology, which enables the creation, editing and sharing of terminology online. In, 2019 we will be expanding our cloud capabilities and perfecting our on-premise products while maintaining a keen focus on our customer base and their needs.

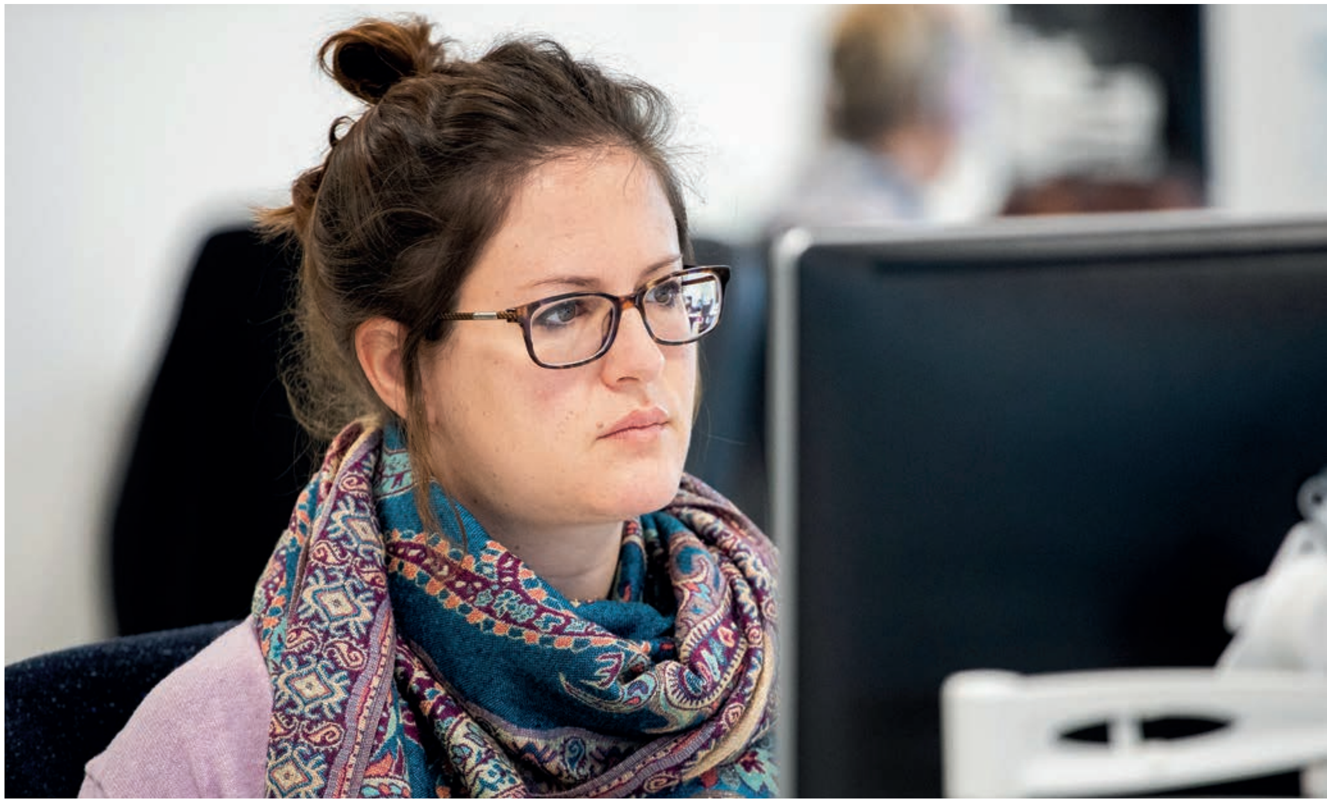
Translation Management software

Organic Translation Management sales were on par with last year at reported rates and rose by 1.9% at constant currency. The DLS acquisition added a further £0.4m of revenue in the year. During 2018, we continued to execute on the key themes of integration, convergence, security and user experience across all areas of the product portfolio.

In 2018, there were releases of SDL TMS, SDL WorldServer and SDL Managed Translation, focused on extending support for GDPR and other security-related standards, including HiTrust (for health information). In most of our products releases, we incorporated new SDL Language Cloud capabilities such as cloud editing and terminology management.

In 2018, we announced and demonstrated our first, true ‘born-in-the-cloud’ Translation Management solution, SDL Language Cloud. This will be released in

Chief Executive Officer's review continued



2019 and will meet market demands for reporting and dashboards, new workflow capability and provide access to SDL's innovations in NMT and AI. In tandem, SDL Trados Studio will be integrated with SDL Language Cloud, enabling secure, real-time translation of cloud-based projects. We are excited at the opportunities that SDL Language Cloud will afford our clients in 2019 and beyond.

Machine Translation and Artificial Intelligence

MT sales contracted by 9.8% at reported rates and 7.9% at constant currency. The key goal for 2018 was the productisation of the latest advancements in NMT for the enterprise and the adoption and introduction of NMT engines in our Language Offices. During the year we developed our NMT 2.0 platform, achieving an average 62% quality improvement across all language combinations and setting the standard in Russian-English. In total, 82 NMT language pairs were released and NMT 2.0 is now available in both our on-premise and cloud products. Furthermore, towards the end of the year we announced the convergence of our MT products using the 'edge-cloud' architecture, which allows greater flexibility of deployment, security and cost and is a unique differentiator in the market.

In many ways, NMT for the enterprise is a new product, not an extension of earlier flavours of MT. Therefore, although it is disappointing that sales declined in 2018, this is partly a result of this market transition. We have been working at pace to reduce barriers to adoption for these new platforms by offering flexible consumption and deployment models, reducing the cost of hardware and adapting our sales model for new regions and use cases. This work continues in 2019, alongside further quality improvements and introductions such as intelligent adaptation features.

Our investments in NMT have enabled us to build broader capabilities in what we call Linguistic AI, which is the application of machine learning to other language-based tasks that include such use cases as content analysis through to content production. In November 2018, we announced the first beta product in this area, SDL Content Assistant, which uses AI to identify and extract themes, patterns, key information and quotes from source documents and automatically produces high quality content variants at speed. SDL Content Assistant has applications in a number of sectors, including marketing and financial services.

Content Technologies

Content Technologies financial performance

Content Technologies delivered reported revenue growth of 3.1% and constant currency growth of 4.8% to £55.3m. Gross margins improved to 69.3% (2017: 68.4%) due to sales mix. Adjusted operating profit was £14.9m (2017: £10.0m), representing a margin of 26.9% (2017: 18.6%), including net capitalised R&D of £3.3m (2017: £1.8m). The division includes two product groups: SDL Tridion and SDL Contenta/XPP.

SDL Tridion

SDL Tridion Sites and SDL Tridion Docs sales grew by 1.8% at reported rates and 3.2% at constant currency. In 2018, SDL Tridion DX (Digital Experience) debuted, delivering the market's first seamless and blended marketing and post-sales content experience. We secured our first set of reference customers and drove significant interest from the regulated industries sectors and in key growth regions such as China. In 2019, we are focused on two key areas: usability and personalisation. We are improving our user experience with a simpler, more intelligent and collaborative content creation environment and we will be enabling the delivery of more personalised content to any touchpoint. As part of our 'best of breed' strategy, we will also release connectors to popular third-party CRM and marketing automation software platforms, allowing our customers to deliver a more centralised, contextually rich experience to their audiences.

SDL Contenta/XPP

Revenue grew by 9.1% at reported rates and 13.7% at constant currency. In 2018, we focused on enhancing security assurance for all our products in the SDL Contenta Publishing Suite and on furthering capabilities for the financial services industry in our SDL XPP product line. SDL Contenta Publishing Suite is targeted at the aerospace and defence market and we released security enhancements enabling our products to be readily integrated into highly secure US Department of Defense and enterprise IT environments. Our latest XPP release delivered more controls and automation for rapid production of high quality financial services content. All these enhancements have been positively received by customers. In 2019, we will be continuing to evolve our products, with a focus on business insights, reporting and cloud enablement.

Conclusion

SDL is now nearly three years into a root-and-branch transformation. Much heavy lifting has been done operationally, allowing us to increase our current focus on optimisation, innovation and building deeper relationships with our customers, as One SDL. It is pleasing that we were able to deliver a much-improved financial performance in 2018 but our margins were still reflective of a business in transformation mode.

We are positioned well in large, growing markets and with a unique set of technologies, services and solutions to meet our customers' evolving needs.

I remain convinced that achievement of our strategic objectives will create significant value for all our stakeholders and achieve our financial goals.

SDL's growth strategy is primarily organic but with the potential to be complemented by M&A. Consolidation is a feature of our markets and we will look at businesses that accelerate our strategic objectives.

Finally, I would like to thank all my colleagues at SDL for their energy and commitment during 2018.

Adolfo Hernandez
Chief Executive Officer

Business transformation programme

Progress, priorities and future

Our strategic transformation goals: building sustainable value through customer relationships, a differentiated offering and modernised operations.

2016-2018 highlights

Customers

- Adopted a go-to-market strategy based on cross-selling our full suite of products and services
- Increased our targeting of high value market segments
- Formalised our 'Voice of the customer' programme and improved customer satisfaction
- Rebuilt professional services

Innovation

- Developed next-generation neural machine learning and launched NMT and Linguistic AI platforms
- Began our next-generation language cloud platform, converging several of our existing language technologies
- Developed our new content platforms and launched SDL Tridion DX

Operations and people

- Built and began implementing our Language Services business process automation platform and business insights platform
- Took actions to control and streamline costs
- Divestments of non-core businesses in 2016-2017 and acquired DLS in 2018
- Strengthened management teams and invested in our people strategy

2019 priorities

Customers

- Evolving our account management strategy towards solution sales
- Driving growth in regulated industries and key buying centres, such as marketing, finance and legal departments
- Developing new and existing partnerships

Innovation

- Launching a number of important products in 2019, including SDL Language Cloud and the next release of SDL Tridion DX. We will be launching new products based on our AI platform
- Developing new global content solutions for our target markets

Operations and people

- Optimising our Language Services operating model, including integrating DLS systems
- Delivering further back-office cost efficiencies by streamlining and automating processes
- Simplification and ease of doing business
- Focus on leadership and culture

Behaviours and performance

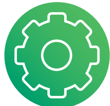
Future

Customers

Strategic relationships and a solutions approach to selling
Our goal is to bring our services, products and solutions together to solve our customers' global content business problems. To achieve this will continue to build our industry expertise and solutions approach. We want to increase our level of sales from partners.

Innovation

Leading and disrupting through technology innovation
We aim to tackle, in an innovative and potentially disruptive way, many of the key challenges of the global content supply chain as it operates today. To achieve this, we must continue investing in research and development, and applying machine learning across our portfolio of products.



Operations and people

Modern, scalable and flexible operations
We require a global operating model that is agile and responsive to changes in the market and customer demands. This means modern systems, processes and data-driven decision-making. Our long-term goals are to reduce operating costs as a percentage of revenue, with a resilient and scalable operating model. We will continue to invest in developing and retaining our people talent.

Our financial transfomation goals

Increased revenue growth rates

Growth in operating margin

Strong cash generation

Key Performance Indicators

Measuring our performance

Our KPIs have been redefined to be aligned to our six strategic objectives and to focus management conversations on future outcomes and performance improvements. We review our KPIs on an ongoing basis to ensure they remain relevant.

LINK TO STRATEGIC OBJECTIVE

Build deep relationships with our customers

Be the world's best Language Service Provider

Be the leader in Language and Content Technologies

Be the leader in content solutions in our target premium segments

Achieve our target operating model

Our strategy
Read more here.

Group revenue

£323.3m ↑12.6%

Year	Value
2018	£323.3m
2017	£287.2m

DESCRIPTION

Revenue reflects the element of billings recognised in the period.

PERFORMANCE

Acquisition of DLS mid year and 4.5% organic growth has improved revenues.

Adjusted administration expenses ratio [1, 4]

43%

Year	Value
2018	43%
2017	44%

DESCRIPTION

Our adjusted administration expense expressed as a percentage of our revenue from continuing operations.

PERFORMANCE

We continue to strive for efficiencies as we move to a single, united operating model. In 2018 we have reduced our administrative costs as a proportion of revenue by 1%.

Adjusted operating profit [1, 2, 4]

£29m ↑20.8%

Year	Value
2018	£29m
2017	£24m

DESCRIPTION

Adjusted operating profit is operating profit before exceptional items and amortisation of acquired intangibles. It provides a picture of underlying peformance and is a key indicator of the Group's success in delivering top line growth while controlling costs.

PERFORMANCE

Continued revenue growth and leverage of the cost base contributed to the increase in adjusted operating profit and margin.

Adjusted operating cash flow from continuing operations [1, 3, 4]

£45.6m ↑221%

Year	Value
2018	£45.6m
2017	£14.2m

DESCRIPTION

Underlying cash conversion is cash flow from continuing operations divided by underlying operating profit.

PERFORMANCE

This has improved in line with improved trading performance and focus on working capital.

Annual recurring contract value [4]

£68.5m ↑4.4%

2018	£68.5m
2017	£65.6m

DESCRIPTION

Annual recurring contract value is the amount of revenue recognised in the last month of the reporting period, annualised from technology related subscription contracts (SaaS, hosting and support and maintenance) and term contracts. It is a key indicator of future revenue performance.

PERFORMANCE

Annual recurring contract value continues to grow year-on-year as we increase subscription revenue.

Premium revenue as % of Language Services revenue

29% ↑7%

2018	29%
2017	22%

DESCRIPTION

Revenue generated from our premium segments (financial services, legal, life sciences and marketing solutions) as a percentage of Language Services revenue.

PERFORMANCE

Our progressive move to premium segments continues to gain momentum.

Language Services gross margin (DLS + SDL)

42.0% ↑1.5%

2018	42.0%
2017	40.5%

DESCRIPTION

Gross margin achieved in the Language Services division.

PERFORMANCE

Margin expansion achieved through application of technology and optimising the resourcing model for linguists and project managers.

Notes

1 The performance of the Group is assessed using a number of alternative performance measures (APMs). The Group's results are presented both before and after exceptional and non-underlying items. Adjusted profitability measures are presented excluding exceptional items and amortisation of acquired intangibles items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance between one period and the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of this reconciliation provided on page 175. In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecasts and the Group's longer-term strategic plans.

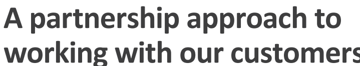
2 Adjusted operating profit is calculated by adjusting operating profit for exceptional items and amortisation of acquired intangibles. See financial review for reconciliation.

3 Adjusted operating cash flow is cash generated from operations before exceptional items and tax paid.

4 A reconciliation and definition of these measures is included on page 175.

Strategy in focus

Build deep relationships with our customers



Objectives of our commercial strategy

SDL has an excellent client base that includes many of the world's leading businesses and brands. Their requirements are becoming more complex as a result of the major market trends and SDL is bringing together its products and services in new ways to solve these challenges.

A partnership approach to working with our customers

With the growing complexity of companies' content supply chains, it no longer suffices to sell point-solutions to solve discrete problems. Our customers, particularly in large enterprises, want to engage with a trusted partner who can help them overcome a broad set of challenges at a more strategic level. From the very first engagement, we seek to set up a discussion with our customers about their content supply chain strategy and how we can improve and operationalise it, bringing together expertise and technologies from across our organisation and portfolio.

A tailored approach by buying centre

Historically, the translation industry largely focused on the in-house localisation departments of large enterprises and they remain very important to us. However, the need for content creation, translation and delivery arises in many different departments, such as marketing, product and engineering and legal; and different industries have specific requirements.

Our customer base in financial services, life sciences and marketing solutions is a good foundation but we will continue to tailor our sales approach to buying centres, as part of our relationship approach.

Building with channel partners

To date, SDL's sales model has been primarily via direct sales to date. A key area where we started to gain traction in 2018 and are keen to build on in 2019 is Original Equipment Manufacturer (OEM) channel partner sales. Our focus is on regulated industries, notably aerospace and defence and life sciences, where we are able to sell our technology and services as a part of a wider, third-party solution, such as digital forensics or pharmacovigilance. Again, this approach has a clear focus on solving complex business problems for our end-customers.

Revenue

£323.3m ↑12.6%

Year	Revenue
2018	£323.3m
2017	£287.2m

Our opportunity

SDL has an excellent established customer base that is diversified across many different geographic regions and economic sectors.

We plan to grow by:

- Increasing our sales to existing customers
- Targeting customers in our focus sectors
- Increasing our sales via partners

97%
Recurring Repeat Revenue (services) (2017: 93%)

220
cross and up-sell deals 2018 (2017: 259)

59%
contractual recurring software revenue[1]

1 A reconciliation and definition of these measures is included on pages 175 - 176.

Strategy in focus continued

Be the world's best Language Service Provider

Automating our Language Services business

SDL Language Services manages and executes translation projects globally. As is typical in the industry, our traditional processes and infrastructure were designed to handle single, large projects over lengthy timescales. To adapt to trends such as continuous localisation, faster turnaround times, more languages and more content types, SDL has built a new business process automation platform, 'Helix', to scale SDL into the future.

Implementation in 2018

We built the core components of Helix in 2017 and early 2018. Thereafter, our focus in 2018 was on-boarding customer workflows, connecting up the many ways that work is delivered into SDL directly into the new platform. At the same time, we standardised our internal workflows and improved the quality of our data collection. We built out our analytics platform to provide insights into all aspects of the projects we are undertaking. This data will be used to deliver value to SDL and its customers. We automated our vendor and freelancer on-boarding processes via the 'WorkZone' portal to deliver an improved, low-touch and faster experience.

The results and impact in 2018

In 2018 we bore the cost of implementation, which included the additional workload for project managers as they operated both the old and new systems. However, by the end of the year we had connected customer workflows equivalent to approximately 60% of addressable accounts onto Helix.

Benefits that were seen in the second half of 2018 were an increase in linguistic utilisation to its highest figure to date (57%). In addition, over 19,000 vendor and freelancer applications were processed via WorkZone.

Our next steps in 2019

In 2019, we are connecting more volume onto the platform and will optimise its use, to drive additional operational and financial benefits. We will enable the former DLS business to leverage the benefits of Helix, taking a phased approach that de-risks business disruption. Finally, we are starting to apply AI to our workflows, based on the data that we are currently capturing about job characteristics, to enable a quicker end-to-end, lower-touch transaction. Helix is a platform that will support the future of SDL and our ability to scale, innovate and adapt to new opportunities.

SDL's 'Helix' platform is designed to meet the current and future demands of our customers, provide added benefits such as data for better decision-making and reduce the manual workload for our project managers and linguists.

AZAD OOTAM
CHIEF TRANSFORMATION OFFICER

Key benefits

The Helix programme is a major upgrade to our systems and processes, enabling us to work faster and smarter. Helix is a foundation on which we will continue to build.

Key benefits include:

- Project management automation
- Vendor management automation
- Reduced administration for linguists
- Data and insights

60%
of addressable accounts on Helix

19,000
vendor and freelancer applications via WorkZone

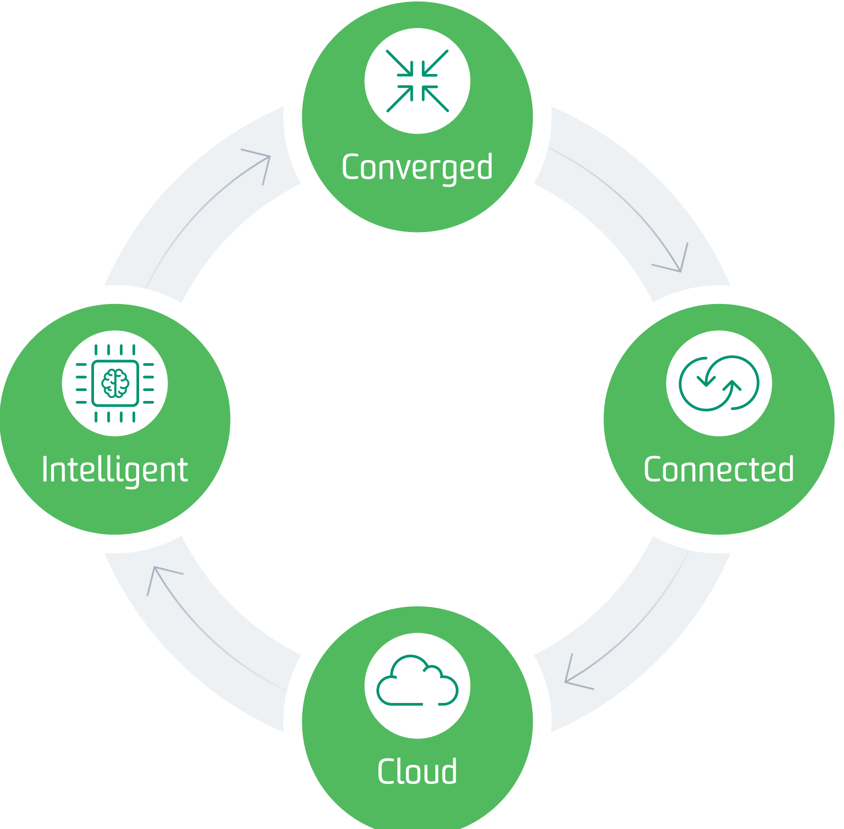
57%
linguistic utilisation (December 2017: 53%)

Strategy in focus continued

Be the leader in Language and Content Technologies

Our technology innovation programmes

SDL has a portfolio of proprietary language and content technologies, deployed by some of the world's largest companies. By owning critical components of the technology value chain, we believe that SDL can deliver better integration of products and services. Our technology innovation programmes are designed to extend our leadership through new platform development, deeper integration, new consumption models and the injection of our Linguistic AI technology.

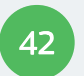


Our innovation themes

- We are converging key parts of our portfolio onto two new platforms: SDL Language Cloud (Language Technology) and SDL Tridion DX (Content Technology). Convergence will bring R&D efficiencies in the medium to long-term and will bring new capabilities through a new architectural approach.
- We are leveraging analytics and machine learning across our platforms, from content analysis to content transformation and translation to personalisation.
- Connectivity is a critical element to consider when automating complex supply chains. SDL continues to invest in both connectors to the leading third-party content repositories, as well as integration between our own products and services.
- We are investing in cloud-first architectures that will enable new deployment and consumption models. Nevertheless, on-premise or private cloud deployments will remain as options in security-conscious use-cases.

Continued

OUR KEY INNOVATIONS


SDL NMT and Linguistic AI
Read more here.

SDL Tridion DX

Transforming content into continuous digital experiences.

Customers search for and consume the content they need, when they need it – regardless of how companies define the expected pre-sale, sale and post-sale customer journey. SDL Tridion DX (Digital Experience) is SDL's new content management platform, released in 2018. It is one solution to create, translate and deliver content using a holistic approach and combines SDL Tridion Docs (structured content management) and SDL Tridion Sites (web content management) on a new unified platform, with integration to SDL's language technologies and services. The release of Tridion DX was an important step forward in our content technology strategy and is the first stage of an exciting roadmap designed to drive product leadership and to capitalise on the strengths of the wider portfolio, including SDL's localisation services and technologies. The next phases of Tridion DX will be released in 2019.

SDL Language Cloud

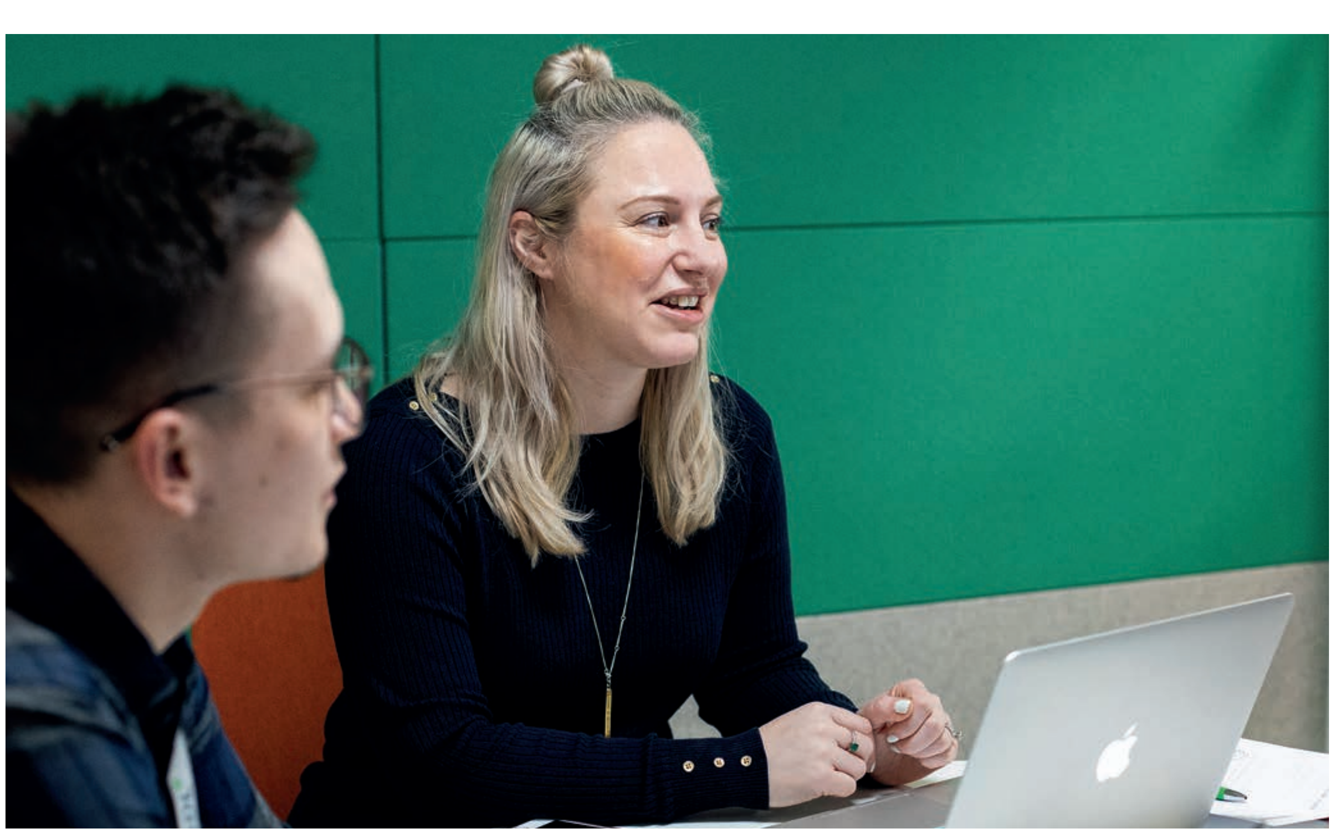
A disruptive, end-to-end platform for the localisation supply chain.

To meet the needs of enterprises to go global fast, the language supply chain must become frictionless. The only way to achieve this is by automating the end-to-end process. SDL's language technologies span the supply chain, from enterprise to translator to MT. Our next-generation SDL Language Cloud is an intelligent, end-to-end platform designed for anyone involved in the localisation supply chain. By converging SDL's best-in-class translation technologies, with AI we aim to drive a new period of innovation in language technology that will enable our customers to unlock the power of their content globally. SDL Language Cloud is a major platform upgrade, based on a cloud-microservices architecture and is the first platform to bring together the benefits of all of SDL's market leading language technologies. A first release of SDL Language Cloud will be available in 2019.

SDL Translation Productivity

Accelerating high-quality, consistent content translation.

Increasing connectivity and globalisation are driving an increase in digital content, with businesses expected to communicate in more languages to reach global audiences. SDL's Translation Productivity products help manage the whole translation process to maintain quality and keep costs down, and are used by businesses, Language Service Providers and translators. Our full suite of tools work together as a platform and via APIs to other SDL and third-party software. SDL Trados Studio is scalable to include powerful translation memory, terminology management, sharing of assets in real time, query management, collaborative review and trainable Machine Translation capabilities. In 2018, we released SDL Trados Studio 2019, an upgrade to SDL Trados GroupShare and next generation Language Cloud Terminology. Our focus in 2019 is on expanding our cloud capabilities.



Strategy in focus continued

Artificial Intelligence and Neural Machine Translation

AI is expected to have a substantial impact on every business in the coming years through productivity gains and new revenue possibilities. SDL is uniquely placed as the only major Language Service Provider with its own NMT and AI technology. We will be using these technologies to continue to improve our Language Services productivity, to add differentiation to our other language and content technologies, and to launch new AI-driven products to the market.

About our Linguistic AI platform

Sitting within the category of Natural Language Processing (NLP), SDL's Artificial Intelligence platforms use specialised deep learning algorithms and neural networks to process language in ways similar to humans. Building on over 15 years of research into statistical machine translation, in 2018 SDL invested £7.2m into this next generation technology. Our Linguistic AI platform includes our NMT platform but also a growing number of other AI-based text analytics and text transformation technologies.

Neural Machine Translation

Why invest in our own MT technology?

SDL deploys MT internally to drive productivity in Language Services, to enhance other products such as SDL Trados and licenses the technology to customers as an on-premise, cloud or edge-cloud deployment.

Although there are many other vendors of MT technology, we believe it is important for SDL to have our own technology, for the key reasons of: security, cost and control. Unlike public cloud MT, we deploy SDL MT securely and compliant with data privacy policies. We are able to control costs at high volume and to generate economies of scale by applying the same technology across different products and services. Moreover, our customers require specific domain adaptations and advanced features not available in generic offerings. By owning our technology, we are able to control and adapt the MT output, driving performance improvements.

Our progress

In 2018, SDL made strong progress on our core technologies, closing the year with 82 NMT generic language combinations. We developed our NMT 2.0 platform, achieving over 60% quality improvement across all language combinations, and we set the standard for Russian to English translation, amongst other innovations.

The future for Neural Machine Translation

Today, NMT is an important productivity tool for assisting professional translators in their work, or for translating very high volumes of content that could not be economically translated by humans, unblocking supply bottlenecks. We will be able to solve an increasing number of challenges, at least partially, through NMT and the future will include increasing adaptation, domain specialisation, tone of voice and personalisation.

82
NMT generic language combinations

60%
quality improvement across all language combinations

£7.2m
invested in MT and AI in 2018

Applying Linguistic AI

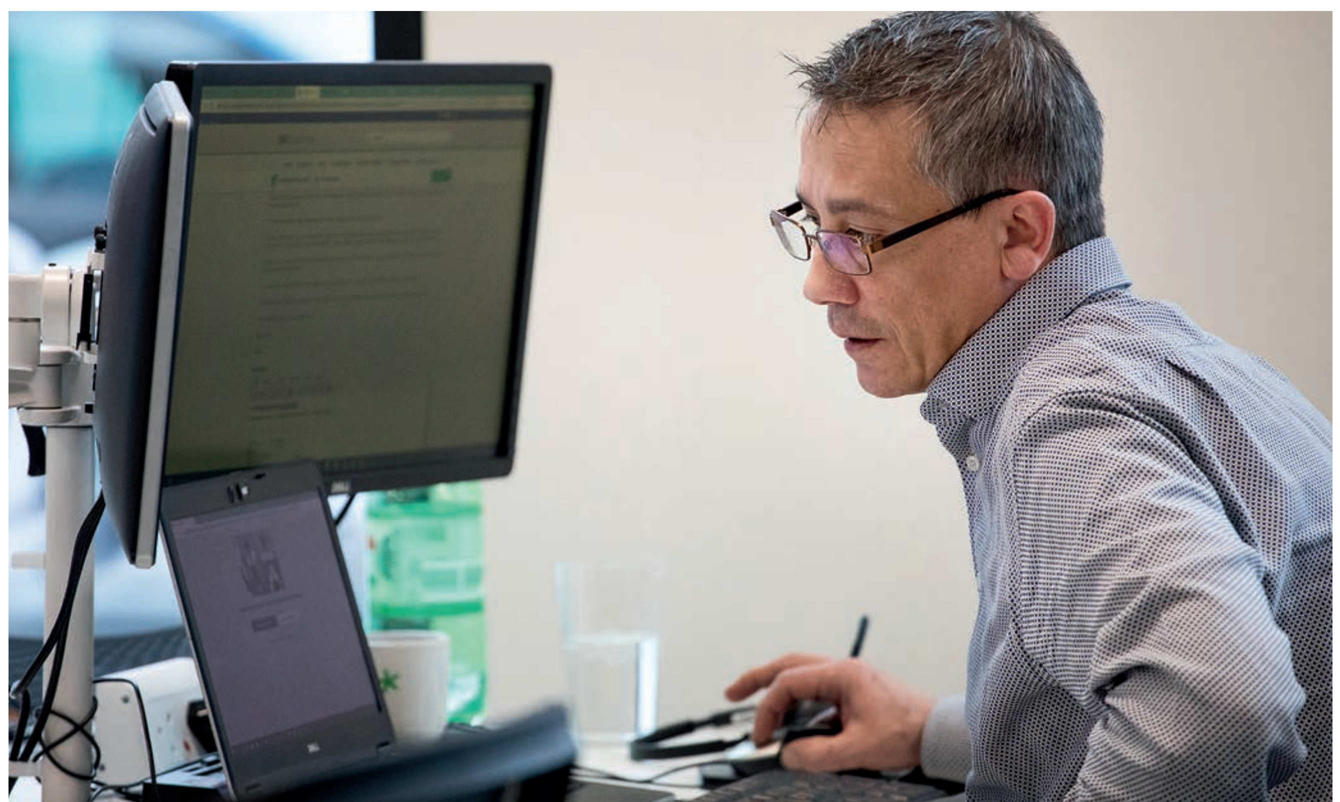
At SDL, we believe that the volume and the value of content will increase, given its intrinsic power to drive more sales and improve customer engagement. These trends will necessitate optimisation strategies – such as true personalisation or multi-variate testing – which will lead to higher content velocity. We believe that only AI technology platforms can facilitate these strategies at scale and as a consequence, in 2018, we built our Linguistic AI platform, which brings together a range of content analysis and transformation tools based on machine learning. Our next steps are to apply these technologies in innovative ways to help further automate Language Services, to enhance our technology products and to launch new products. Example applications include the analysis of documents at the start of the translation process and the enhancement of our structured authoring technologies. In 2018, we announced SDL Content Assistant, a new product that helps authors instantly analyse and create new content variants for different contexts, formats and channels. We are ambitious for what we can achieve with this technology.

Linguistic AI platform

- Neural MT 2.0
- Suitability for MT Post-Editing
- Language Modelling
- Keyword Extraction
- Entity Recognition
- Domain Identification
- Complexity Analysis
- Dependency Parsing
- Language Identification
- Summarisation
- Sentiment Analysis

Products and services

- SDL Language Services
- SDL Machine Translation
- SDL Tridion DX
- SDL Language Cloud
- SDL Content Assistant



Strategy in focus continued

Be the leader in content solutions in our target premium sectors

SDL's premium and regulated industry practices provide tailored, global content solutions. We deploy our full range of services and technologies in innovative ways to solve content-related business problems; from clinical research submissions to fund launches, to eDiscovery or global marketing campaigns.

Financial services

We focus on asset management, banking, insurance and audit, supporting our clients' global content projects and ongoing content lifecycle management. We work with our clients on a range of important topics from security, risk management and compliance, through to investor reporting and customer engagement.

Example solution:

SDL Secure Translation Supply Chain

Life sciences

SDL has clients across all segments of the pharmaceutical, biotech, medical device and contract research organisation (CRO) space. We provide labelling solutions that streamline the regulatory submission workflow process, centralise knowledge management through SDL Tridion Docs, test medical devices to ensure that the device software and user interfaces work globally, and enable organisations to translate high volumes of content with subject matter expertise and security.

Example Solution:

SDL Multilingual Submissions Management

Legal

Cases involving documentation in several foreign languages are complex and require subject matter expertise to address the nuances of legal systems that differ from country to country. SDL delivers attorneys, paralegals, general counsels and legal services providers with multilingual eDiscovery solutions, legal translations, interpretation, and machine translation solutions to translate sensitive data quickly and securely.

Example Solution:

SDL eDiscovery Solution

Marketing solutions

SDL Marketing Solutions specialises in how best to adapt, manage and deliver global brand content. We help organisations transcreate culturally nuanced content across languages, produce content across different formats, and manage digital experiences across a growing number of digital channels and touchpoints.

Example Solution:

Transcreation, Content Production and Content managed service

Tailored solutions

SDL customises solutions based on specialist knowledge, terminology, skills and technology as well as language expertise. By adapting to our customers' workflows and processes, customers can go global faster and focus on their core competencies rather than having to waste valuable time conforming to our workflows.

Importance of security

In the age of GDPR, security is critical to every organisation managing content. Apart from facing legal consequences for failures to protect sensitive customer data, many organisations also risk revealing competitive information when sending information to public MT platforms or agencies who improperly vet third party vendors who may be translating the content. With a unique in-house translation model and robust security protocols, SDL provides the most secure translation supply chain, ensuring that our customers don't experience costly data breaches.

OUR SOLUTION BUILDING BLOCKS FOR REGULATED INDUSTRIES

Highly regulated industries	Expert knowledge	Secure SDL technology	Connectivity to client applications
Life sciences Healthcare Financial services Legal services	Regulated workflows Regulatory changes Secure content solutions and distribution Confidentiality risk management	– Managed TMS – SDL MultiTrans – Web Proxy – MT Solutions – SDL Tridion DX – SDL XPP – Marketing Solutions – Connectors	– Drupal – Sitecore – Hybris – Adobe – Episerver – Confluence – Alfresco – Oracle – Relativity – Salesforce – Servient – 70+ more

SDL MARKETING SOLUTIONS

	Transcreation	Content production	Content managed service
The goal	A local engaging and global consistent brand voice.	Optimised delivery of global brand content.	Effective management and deployment of omnichannel global content.
The challenge	Global brand content is typically written in English vernacular but needs to travel with the same impact across channels, languages, cultures and markets.	In an increasingly content-hungry world, creating, managing and delivering global omnichannel content is more expensive than ever before.	Global brands' omnichannel experiences are fragmented and expensive to manage.
SDL's solution	SDL's copywriters and specialist transcreation teams adapt all content to give global communications greater local relevance, context and impact.	SDL provides a single-source, cost-effective partner to consult, plan, adapt, manage and deliver omnichannel marketing content, staying globally on brand.	SDL provides a global, scalable and cost-effective technology-enabled Content Managed Service, combined with Language and Content Production Services.

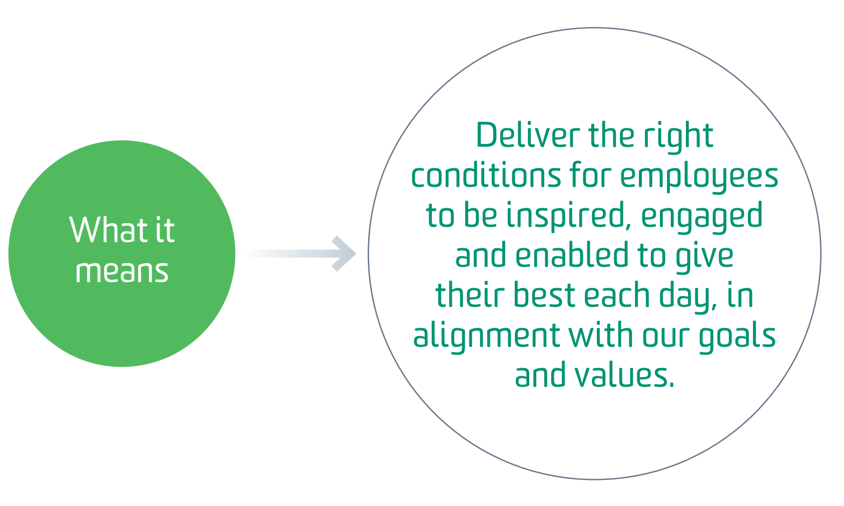
SDL's integrated Marketing Solutions enable brands to optimise their global content supply chain – delivering more content across more channels, better, faster, cheaper.

Strategy in focus continued

Enable our people to be their best

Located in 39 countries around the world, over 4,100 SDL employees provide the fuel that propels the execution of our strategy. Built on the belief that strategic success is created through both people and organisational capability, two years ago we introduced a people strategy aimed at delivering the right conditions for all employees to be inspired, engaged and enabled to give their very best each and every day, in alignment with our ambitious strategy and its goals.

Enabling people to be their best



OUR EMPOYEES WILL

- Be led by leaders who know how to connect well with others and build high performing teams that outperform the competition
- Thoroughly understand our strategic direction and how they contribute to achieving it
- Gain value from their employment relationship with SDL
- Possess and continuously develop the right skills to deliver business results and achieve their career potential
- Feel passionate about their work and have a sense of pride, loyalty and commitment to working for SDL
- Act as promoters, ambassadors and advocates for SDL, internally and externally

1,000+
agile or flexible workers at SDL

97%
of employees repeatedly accessed our learning platform

4m+
minutes of online learning

Our People Strategy achievements in 2018

During 2018, we accomplished a number of actions in support of this strategy.

We strengthened our leadership development, training and coaching programmes.

We aligned employees around detailed strategic objectives, which were monitored and supported. We redesigned our approach to performance management to make it open, engaging and feedback-centred.

We continued to build on our internal learning platform to help us create a culture of continuous learning.

We harmonised pay review and bonus plans and all employees were aligned to our new job structure.

Post the DLS acquisition, we devised a careful and comprehensive approach to ensuring our new colleagues had a good and smooth experience joining SDL. We also introduced our agile work practices to provide options to strike a balance between personal and work worlds.

1 Leadership

2 Alignment

3 Growth and enablement

4 Recognition

5 Employee experience

SDL People Strategy

LEADERSHIP DEVELOPMENT

With the purpose of helping leaders connect with others and build high performing teams, we will introduce a comprehensive approach to leadership development that will include training, coaching, online learning and 'high touch' support from experts to receive advice, suggestions and best practices.

Focus 2019

SHAPING OUR CULTURE

We know that culture is shaped when everyone is moving in the same direction, aiming to be the best they can be and doing what is best for SDL. As we shape our culture, our actions we will be focused on what inspires us – our people, our leaders, our customers and the type of place we want SDL to be.

Strategy in focus continued

Achieve our target operating model

SDL is investing across the business to modernise our operating model. As a global business, it is our goal to become more agile, automated, connected, customer-oriented and data-driven. All of our programmes have this focus and executing them will enable SDL to improve both operational efficiency and effectiveness.

Our main operational improvement programmes:

One SDL

Prior to 2016, SDL operated as a number of separate business units, which we have since brought into a single organisation. We continue to optimise our One SDL structure and systems, improving business performance through operational efficiencies, greater collaboration and a better experience for our customers. A joined-up approach enables risks to be identified and mitigated earlier and more easily.

Global business services and process integration

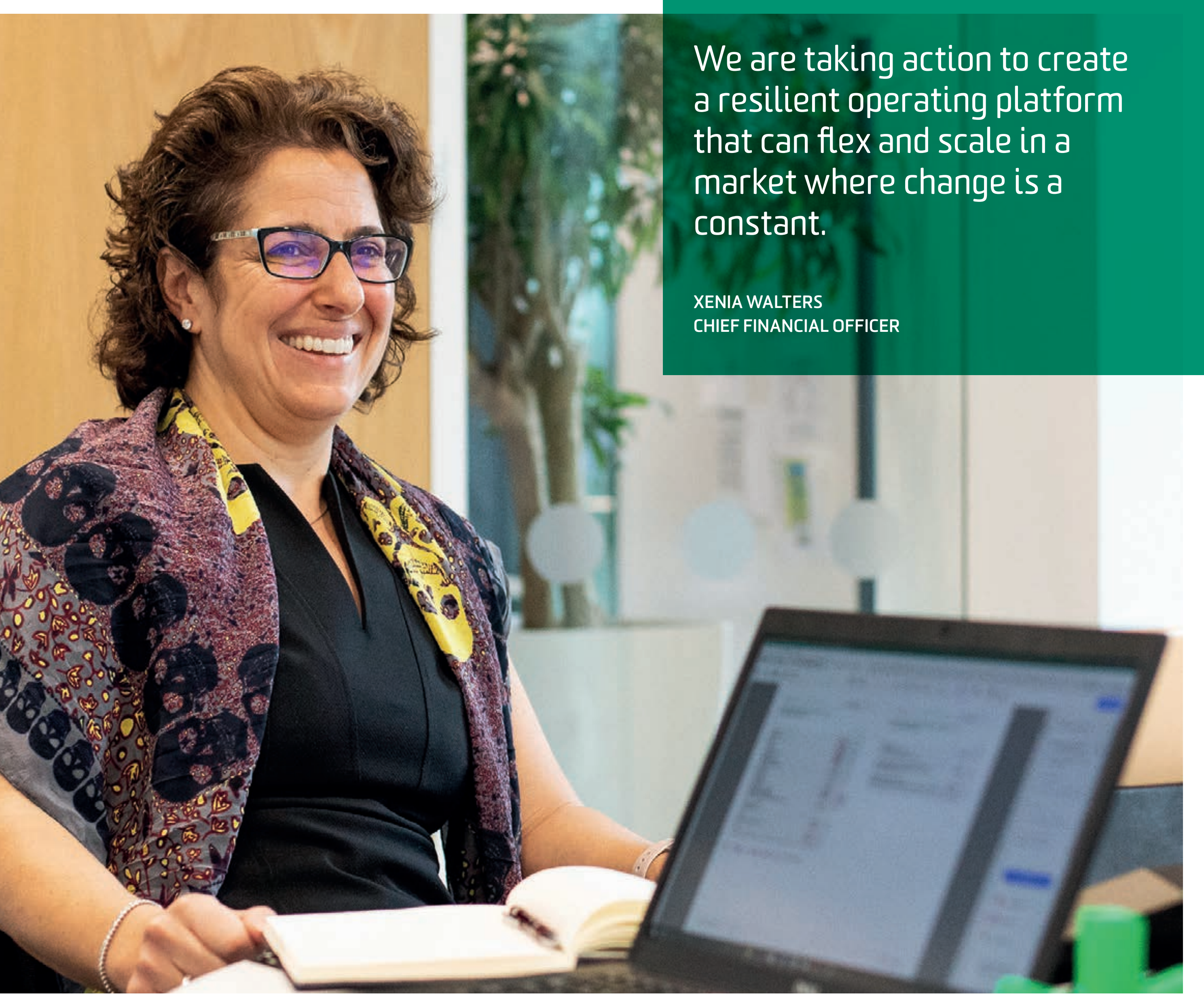
SDL's legacy structures created inefficiencies in SDL's corporate services, namely finance, human resources, facilities and information technology. We have identified a number of opportunities to reduce costs and improve efficiency through:

- Simplifying, standardising, automating and centralising our business processes to deliver them more quickly and efficiently
- Regional service hubs in near-shore and offshore locations that align to our needs and deliver best value for money
- IT infrastructure that drives maximum efficiency , including rationalisation of legacy IT systems and adopting cloud strategies
- A review of selling, general and administrative costs (SG&A) undertaken in 2018 identified approximately £8m of gross, annualised cost savings and synergies. We are working to deliver these saving in the current year, the full benefit of which are expected in 2020.

Data is helping us improve coordination and decision-making

Data is the key to optimising our organisation, servicing our clients and differentiating ourselves in the marketplace. Since the initial implementation of our 'Insight' platform, we have significantly increased our ability to capture data from across the organisation and to analyse it. In 2018, we created 30 new dashboards for the organisation and produced a full 360 degree view of client profitability. In 2019 we will be focusing on vendor spend analysis and operational reporting and forecasting.

Our principles



We are taking action to create a resilient operating platform that can flex and scale in a market where change is a constant.

XENIA WALTERS
CHIEF FINANCIAL OFFICER

AGILE

We are embedding agile and technology-enabled processes across the business, from Language Services to technology development and in our back-office processes.

AUTOMATED

In addition to our major investment in automation in Language Services, we are also automating and digitising many functional processes, for example in finance, legal, sales and marketing operations.

DATA-DRIVEN

We have invested in data insights across the business, enabling our colleagues across all levels to access the information they need, enabling them to be more responsive and proactive.

CUSTOMER ORIENTED

Our transformation puts the customer at the centre of everything we do. Doing this requires an operational approach that brings together all customer data and touchpoints, enabling us to understand and engage with our customers effectively.

CONNECTED

Connectivity and automation go hand-in-hand and there are further gains to be had in connecting our internal systems: for example, linking Helix to finance. Just as importantly, connectivity means a joined-up, collaborative approach across our teams and locations.

GLOBAL

SDL's business is global by its very nature, both commercially and in terms of infrastructure. Our challenge is to make sure that this global spread does not become an operational handicap. We are constantly working to streamline and improve our approach to managing our global operations.

Chief Financial Officer's review

2018 was a year of solid financial performance

SDL has made significant organisational changes to create a strong global business and we have started to realise the benefits of these changes in 2018. I am excited by the prospects for 2019 and beyond as we realise the opportunities in front of us. 2018 was a year of solid financial performance for the Group, reflecting the positive impact of the DLS acquisition and continued organic growth within the existing SDL business.

Group revenue up

12.6%

£323.3m (2017: £287.2m)

Adjusted operating profit up

20.8%

£29.0m (2017: £24.0m)

1 A reconciliation and definition of these measures is included on pages 175 - 176.

Revenue

Group revenues grew by 12.6% to £323.3m and organic[1] revenues increased by 4.5% at constant currency[1].

Annual Recurring Revenue (ARR)[1] for our technology businesses consists of SaaS licence, hosting and support and maintenance revenues. ARR of £61.9m improved 2% on prior year. As previously reported the ARR calculation has been restated for IFRS 15 and therefore excludes the licence element of term contracts. Given a number of our term licences are contracted over three to five years and fees are paid over the lifetime of the contract, we also measure ARCV[1] (Annual Recurring Contract Value) which includes cash flows arising from Term licence fees. In 2018, like for like ARCV was £68.5m which represents a 4% increase on 2017.

Geographical revenue analysis

The Group continues to benefit from a diverse mix of regions, industry verticals and customers, limiting the Group's exposure to adverse economic conditions in certain countries and sectors. Customer concentration is in line with the prior year, with the 10 largest customers contributing 25% of organic SDL revenues in 2018. Our biggest customer accounts for 7% of the Group's revenue. Geographical analysis of our external revenues by destination (location of customer) is set out opposite (2017 includes revenues from the discontinued business of £2m).

Gross profit margin

Gross profit margin from continuing operations of 52.2% was in line with the prior year due to the improvement in

Divisional revenue analysis

	2018 £m	2017 £m	Reported growth at actual rates %	Organic growth at constant currency %
Language Services	**218.2**	184.5	+18.3	+5.2
Language Technologies	**49.8**	49.0	+1.6	+1.7
Content Technologies	**55.3**	53.7	+3.0	+4.8
Revenue from continuing operations	**323.3**	287.2	+12.6	+4.5

Language Services margin being offset by margin dilution from the acquired DLS business, mix of licence fees in our technology businesses and year on year increases in variable compensation. Gross profit margin within our largest division, Language Services, improved from 40.5% in 2017 to 42.0% in 2018, including the impact of the DLS acquisition. Excluding the impact of DLS the gross margin was 42.5% and the December 2018 exit rate was 45.2%. The year on year improvement reflects the launch of our business process automation platform (Helix), optimisation of our resourcing model, continued strong usage of machine translation and better controls over freelancer expenditure. These initiatives have led to a reduction in the use of external linguists and improved productivity from our internal operations which is evidenced by the increased productivity among our linguistic community where utilisation has increased to an exit rate at December 2018 of 57% (December 2017: 53%). The acquisition of DLS had a dilutive impact on gross margin as a result of using a delivery model which focuses on outsourced linguistic services. Integration activities in 2019 will focus on applying the existing SDL operating model to DLS to drive gross margin expansion. This will be achieved through the application of technology, namely Helix and machine translation and utilising SDL's in-house resourcing pool of 1,300 linguists.

Gross profit margin within Language Technologies of 77.9% was lower than prior year of 79.6%, while Content Technologies improved from 68.4% to 69.3%. The margin variation is driven by the mix of licence revenues between SaaS, perpetual and term licences.

Administrative expenses

Adjusted administrative expenses from continuing operations increased by £13.3m to £139.8m. Incremental administrative expenses relating to DLS amounted to £8.6m, with the remaining increase in costs driven by increases in variable compensation offset by savings from our 2018 headcount restructuring plan.

Adjusted administrative expenses as a percentage of revenue were 43% (2017: 44%). Staff costs make up a large proportion of this cost base accounting for approximately 70% of total administrative expenses. This percentage flexes in line with movements in variable staff compensation.

A functional and divisional analysis of adjusted administrative expenses for the continuing operations is set out alongside.

R&D expenditure includes £17.6m (2017: £18.5m) of cash costs and amortisation of £1.1m (2017: £nil). Capitalised R&D costs of £7.6m (2017: £2.5m) are held on the balance sheet and amortised over the expected useful lives of the development projects concerned, which is approximately three years. Year-on-year R&D investment increased by £4.2m to £25.2m.

The Group's development processes and governance in relation to R&D costs has now been fully implemented and the 2018 capitalised R&D costs reflect this. The Group expects to capitalise R&D costs of approximately £7-8m per annum in the mid-term. Capitalisation of R&D commenced in the third quarter of 2017 and therefore 2018 includes a full year impact.

Geographical revenue analysis

	2018 £m	% of total	2017 £m	% of total
UK	**36.7**	**11**	37.4	13
EMEA (excluding UK)	**68.2**	**21**	59.6	21
USA	**129.3**	**40**	111.1	38
Americas (excluding USA)	**10.4**	**3**	12.6	4
Asia Pacific	**78.7**	**25**	68.5	24
Group revenues	**323.3**	**100**	289.2	100

Administrative expenses

	2018 £m	2017 £m
Group administrative expenses	**149.9**	133.5
Amortisation of acquired intangible assets	**(2.4)**	(4.0)
Exceptional items	**(7.7)**	(3.0)
Adjusted administrative expenses from continuing operations	**139.8**	126.5

Adjusted administrative expenses for the continuing operations

	2018 £m	Restated [1] 2017 £m
R&D	**18.7**	18.5
Sales and Marketing	**52.8**	46.0
General Administration	**68.3**	62.0
Total cost by function	**139.8**	126.5
Language Services	**68.7**	55.9
Language Technologies	**29.3**	28.8
Content Technologies	**23.4**	26.7
Corporate	**18.4**	15.1
Total costs by division	**139.8**	126.5

1 Restated for IFRS 15 (capitalisation of commission costs).

Chief Financial Officer's review continued

Sales and marketing costs of £52.8m (2017: £46.0m) includes direct costs for specific sales teams (e.g. product specific teams) as well as general sales and marketing costs which are allocated across the divisions.

General administration expenses of £68.3m (2017: £62.0m) include all of our Group, regional and local support functions. The increase is as a result of acquired DLS costs, IFRS 2 charge (Share-Based Payments) and additional variable compensation offset by headcount restructuring savings. The IFRS 2 charge of £1.8m is held centrally and variable compensation of £1.2m both of which are reported within the Corporate Cost division.

Central corporate costs and total operating costs

In 2018, SDL's central corporate costs rose to £18.4m (2017: £15.1m), primarily as a result £1.8m (2017: £0.2m) share-based payment charges and variable compensation pay of £1.2m (2017: £nil) for corporate personnel. After corporate costs, adjusted operating margins rose from 8.4% (restated for IFRS 15) in 2017 to 9.0% in 2018.

As we have undertaken our transformation, we have been seeking to reduce costs associated with legacy organisational structures and processes and to re-invest in areas that we believe will have a higher return on investment. Starting in Q4 2017, we undertook a cost restructuring that delivered annualised cost savings of £10m, resulting in an exceptional cost of £6.2m of which £4.1m was incurred in 2018. These cost savings were re-invested across the business. Total adjusted administrative expenses in 2018 increased by £13.3m due to the acquisition of DLS, an increase in variable compensation, wage inflation and the impact of foreign exchange rate movements.

Improving operational efficiency in 2019

In 2018 we conducted detailed analysis which highlighted a number of opportunities to improve operational efficiency and reduce cost. Our vision is to create a more customer-centric operating model which is more agile, quicker to react and more effective. In doing so we will leverage technology to cut costs, improve quality and transparency and build sustainable value. In 2019 we will continue to act on these and other opportunities which focus on efficiency and strengthening our competitive position.

These initiatives are expected to deliver gross annualised savings of at least £8m by 2020 for an exceptional cash cost in 2019 of £2m-£3m. These savings are additional to the £10m annualised cost savings achieved in 2018. Approximately £7.0m of these savings crystallised in 2018.

R&D investment

	2018 £m	2017 £m
R&D expensed (SDL)	**17.1**	18.5
R&D amortisation (non cash SDL)	**1.1**	–
R&D expensed (DLS)	**0.5**	–
R&D in profit and loss	**18.7**	18.5
Capitalised in year	**7.6**	2.5
Total R&D in investment	**25.2**	21.0

Amortisation

	2018 £m	2017 £m
Acquired intangibles amortisation	**2.4**	4.0
Internally generated intangibles: R&D amortisation	**1.1**	–
Internally generated intangibles: Helix amortisation	**1.1**	–
Depreciation on tangible fixed assets	**3.1**	2.9
Total	**7.7**	6.9

Amortisation and depreciation

Acquired intangible assets include software and customer relationships arising from acquisitions. These are amortised over periods of between 18 months and 15 years. The amortisation charge relating to acquired intangibles in 2018 was £2.4m (2017: £4.0m). The £1.6m reduction is due to some intangible assets being fully amortised during the course of the year.

Amortisation on internally generated assets, namely R&D and Helix is treated as an expense in arriving at adjusted operating profit of £29.0m. In general, capitalised R&D is amortised over three years and Helix is amortised over 10 years. By 2020, R&D capitalisation and amortisation are expected to be broadly neutral.

Adjusted operating profit

Adjusted operating profit which is operating profit before exceptional items and amortisation of acquired intangibles was £29.0m (2017: £24.0m) and adjusted operating margin was 9.0%, an improvement of 0.6% on 2017 for reasons already mentioned.

The Group operating profit for 2018 was £18.9m (2017: £17.0m), representing an operating margin of 5.8%, which is consistent with prior year.

Adjustments between adjusted operating profit and operating profit

Adjusted operating profit is operating profit before exceptional items and amortisation of acquired intangibles. These adjustments amounted to £10.1m in 2018 (2017: £9.7m for the Group, £7.0m from continuing operations).

The Group incurred acquisition-related costs of £2.8m, which included legal and professional fees for the acquisition of DLS as well as integration costs. Other exceptional costs of £0.8m relate to settlement costs in relation to historic tax issues.

Total exceptional items resulted in a £6.8m cash outflow in the year (2017: £10.7m).

Taxation

The Group's tax charge for the year was £3.6m (2017: £1.6m) representing a statutory tax rate of 19.6% (2017: 9.4%).

The adjusted operating profit tax charge on continuing operations[1] amounted to £7.3m (2017: £7.6m) and represents an effective tax rate of 25.2%. This tax charge is lower than prior year principally due to the reduction in the US Federal tax rate from 35% to 21%.

Following the completion of the Group's s 382 exercises in relation to prior year acquisitions together with other deferred tax restatements, the Group has recognised an exceptional tax credit of £2.1m (2017: £4.6m).

We exited the year with recognised carried forward tax losses of £30.8m (2017: £51.1m).

The Group underlying effective current tax rate going forward is expected to be in the region of 23% to 25% due to lower future tax rates in the UK and US.

Corporation tax paid of £2.8m is in line with prior year. Tax payable in 2019 is expected to be in the region of £10m as a result of resolving historical tax filings.

Earnings per share

Adjusted basic EPS increased 23% to 24.7p as a result of improved trading. Basic EPS for continuing operations was 17.2p, a 9% reduction on prior year and is impacted by the increase in exceptional items and the additional shares in issue to finance the DLS acquisition.

Acquisition of Donnelley Language Solutions

In July 2018, SDL acquired DLS, a provider of Language Service solutions. This acquisition strengthened our position within the higher value premium content markets. The business was acquired for a cash consideration of $77.8m (£59.4m) plus fees of £2.1m on legal and due diligence services. The acquisition was facilitated by a £36.2m share placing (£35.0m net of fees) at £4.40p and a £19.6m draw down of debt. DLS has traded well since acquisition. The results of that business have been incorporated into the Language Services and Language Technologies divisions and details on the provisional acquisition accounting are set out in note 27 to the financial statements.

In the year to 31 December 2018, DLS contributed post acquisition revenues and adjusted operating profit of £27.8m and £1.8m respectively. Looking ahead, we see opportunities to increase the margin of the acquired business through cross-selling of technology, sharing some of the benefits of SDL's operating model, such as in-sourcing and automation and by reducing duplicate back office and facilities costs.

In 2018, our priority was to provide continuity and a positive experience for DLS customers, employees and suppliers and we believe that we achieved a smooth transition. From the underlying business we were able to save £1m of annualised cost from integrating and optimising our facilities footprint. In 2019, our focus is on cross-selling and solution development.

We will take a measured approach to operational integration, maintaining high customer service standards.

Cash flow and net cash

Adjusted operating cash flow from continuing operations before exceptional items was £45.6m (2017: £14.2m) with a £11.3m cash flow working capital inflow (2017: £12.7m outflow) principally due to an increase in the accrual of variable compensation in respect of 2018 performance. Continued focus on strong cash collections in 2019 will underpin positive translation of trading profit to cash conversion.

Total capital expenditure of £14.4m includes payments for maintenance capital expenditure (£2.2m), R&D (£7.6m) and investment capital expenditure (£4.6m). Capitalised R&D costs are regarded as normal spending by the business and included within the definition of free cash flow. Routine maintenance capital expenditure of £2.2m (2017: £3.0m) is within guidance of 1% of revenues. We expect future maintenance capital expenditure to be within this range.

Investment capital expenditure of £4.6m (2017: £10.4m) includes spend on our centralised Language Service delivery platform, Helix, which will allow us to drive scale and efficiency improvements. Further Helix enhancements will be delivered in 2019 at a cost of £2-3m.

The cash impact of exceptional items amounted to £6.8m (2017: £10.7m). This includes £4.5m of restructuring payments and £2.3m of acquisition related costs.

Dividends of £5.1m paid in the year (2017: £5.1m) comprised the dividend for 2017 of 6.2p per ordinary share.

The DLS business was acquired for a cash consideration of $77.8m (£59.4m), facilitated by a £36.2m share placing at 440p (£35.0m net of fees) and a £19.6m draw down of debt.

Exceptional costs and amortisation of acquired intangibles

	2018 £m	2017 £m
Headcount restructuring costs	**4.1**	2.1
Acquisition related costs	**2.8**	–
Other exceptional items	**0.8**	0.9
From continuing operations	**7.7**	3.0
Discontinued operations	**–**	2.7
Total exceptional costs	**7.7**	5.7
Amortisation of acquired intangibles	**2.4**	4.0
Adjustments to operating profit to arrive at adjusted operating profit	**10.1**	9.7

1 A reconciliation and definition of these measures is included on pages 175 - 176.

Chief Financial Officer's review continued

Balance sheet

Net assets at 31 December 2018 increased by £51.8m to £245.6m. Acquisition related intangibles arising from the DLS acquisition amounted to £56.7m, being goodwill of £22.3m, acquired customer relationships of £30.1m and acquired intellectual property of £4.3m.

Working capital

Trade and other receivables at 31 December 2018 increased by £22.9m to £108.3m. DLS trade and other receivables at 31 December 2018 amounted to £19.4m.

We have restated our Days' Sales Outstanding (DSO) calculation to reflect the number of days' billings in debtors as we believe this provides a more accurate reflection of performance. DSO calculated under this basis is 58 days (2017: 57 days).

Trade and other payables of £105.1m (2017: £78.0m) includes deferred income of £39.8m (2017: £37.3m). Trade payables have increased as a result of the acquisition. Supplier payment days were 26 days (2017: 29 days). The addition of DLS freelancer vendor payments which are paid on shorter payment terms has reduced supplier payment days year-on-year. Accruals of £46.5m (2017: £21.0m) were higher than the prior year primarily due to variable compensation plans, increased accruals as a result of the DLS acquisition and increases in other taxes and social security as a result of increased headcount.

Cash flow and net cash

	2018 £m	2017 £m
Adjusted operating profit	**29.0**	24.0
Depreciation and amortisation from non-acquired intangibles	**5.3**	2.9
Adjusted EBITDA[1] from continuing operations	**34.3**	26.9
Working capital and share-based payments charge from continued operations (excluding exceptionals)	**11.3**	(12.7)
Adjusted operating cash flow from operations before exceptional items	**45.6**	14.2
Exceptional items and discontinued operations	**(6.8)**	(10.7)
Operating cash flow from continuing operations	**38.8**	3.5
Maintenance capital expenditure	**(2.2)**	(3.0)
Capitalised R&D costs	**(7.6)**	(2.5)
Interest and taxation paid	**(4.2)**	(2.9)
Investment capital expenditure	**(4.6)**	(10.4)
Disposal proceeds	**–**	22.2
Dividends paid	**(5.1)**	(5.1)
Payments to acquire DLS (net of cash acquired)	**(59.2)**	–
Proceeds from share issues	**35.4**	1.2
Proceeds from borrowings	**19.6**	–
Repayments of borrowings	**(14.4)**	–
FX on cash	**0.6**	(1.6)
Net cash (outflow) / inflow	**(2.9)**	1.4
Opening net cash at 1 January	**22.7**	21.3
Closing net cash at 31 December	**19.8**	22.7

1 Adjusted EBITDA – profit before tax, interest, depreciation, amortisation of acquired intangibles and exceptional items.

Average exchange rates

	2018	2017
Euro (€)	**1.13**	1.15
US Dollar ($)	**1.34**	1.29

Funding and capital structure

The Group's cash balances at the year-end amounted to £19.8m with external borrowings of £5.4m (2017: £22.7m cash and no external borrowings).

On 20 July 2018, the Group signed a five year £120m syndicated bank multi-currency Revolving Credit Facility (RCF), expiring on 19 July 2023. The agreement includes the provision of a £50m Accordion (uncommitted) facility. At 31 December 2018, £5.4m of the RCF was drawn on the facility and these amounts have been fully settled subsequent to the year end.

The Group was in compliance with the terms of all its facilities, including the financial covenants at 31 December 2018 and throughout the year. The Group expects to remain in compliance with the terms going forward.

Foreign exchange

The Group does not hedge foreign currency profit and loss translation exposures and the statutory results are therefore impacted by movements in exchange rates. The average rates used to translate the consolidated income statement are below.

The principal exposures of the Group are to the US Dollar and Euro with approximately 50% of the Group's revenue being attributable to the US Dollar and 36% of Group costs being Euro denominated.

Capital structure and dividend

The Board believes in maintaining an efficient but prudent capital structure, whilst retaining the flexibility to make value-enhancing acquisitions. The Board's main strategic priority remains an acceleration of underlying revenue growth, supported by targeted bolt-on acquisitions. The growth underpins the Board's sustainable, progressive dividend policy. Consistent with this policy, the Board is proposing a 13% increase in the total ordinary dividend per share for the year to 7.0p (2017: 6.2p per share).

Brexit impact

Although uncertainty remains as to the outcome of the Brexit negotiations between the UK and EU, the Group has adopted an approach that we believe will allow us to manage the risks and opportunities that Brexit brings. These could include changes in:

- market access that impact how we transact intra-Group operations, share data, manage tax and foreign exchange exposures and manage our intellectual property
- people-specific rules and regulations that could impact the international mobility of our colleagues
- market opportunities that impact which areas of our international locations we will choose to grow.

Due to the already global nature of our business and service capabilities across the globe, we do not currently consider that we will be materially impacted by the UK's departure from the EU.

Impact of new accounting standards

The Group adopted IFRS 15 and IFRS 9 with an effective date of 1 January 2017. The Group adopted the fully retrospective approach which has resulted in the prior period comparatives being restated to provide comparative information to the readers of the accounts. There was no material impact on the reported results for the Group as a result of the adoption of IFRS 9.

IFRS 15

The effect of adopting IFRS 15 has been to increase profit for the year (net of tax) ended 31 December 2017 by £1.6m and to increase the opening net assets by £3.1m.

There are two primary impacts arising from the adoption of IFRS 15:

- Term licence revenues are recognised on delivery, after appropriate deductions for services such as support and maintenance and hosting which are amortised over the term of the contract. The impact has been to increase 2017 revenues by £1.5m.
- IFRS 15 requires the deferral of direct costs relating to the sale of goods or services to be recognised in line with the revenue for those contracts. The Group's direct costs relate to sales commission costs which are being capitalised and amortised to match the revenue stream. The impact of this change has been to reduce administrative costs by £0.5m in 2017.

Accordingly, the estimated impact of adopting IFRS 15 on the Group's 2017 results was to increase reported profit before tax by £2.0m. The tax impact of the actuals is to increase the tax charge by £0.4m.

The Group's future results will be driven by the mix of sales going forward and the proportion of perpetual, term and SaaS contracts sold as well as the contractual period of new deals impacting the amortisation period of commissions.

IFRS 16

The Group is required to adopt IFRS 16 'Leases' from 1 January 2019. The Group plans to apply IFRS 16 on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Based on the information currently available, the Group estimates that it will recognise a right of use assets and corresponding lease liabilities of between £27m and £30m as at 1 January 2019. We estimate the increase in EBITDA to be in the range of £8.5m to £9.5m with a combined increase in depreciation and interest in a similar range. The impact of IFRS 16 for the year ended 31 December 2018 will be finalised and presented as a restatement along with the results for the half year ending 30 June 2019.

Xenia Walters
Chief Financial Officer
20 March 2019

Sustainability review

Growing a socially and environmentally responsible business

SDL Foundation

By supporting charities and projects across the world, the SDL Foundation helps disadvantaged people through financial grants, educational and vocational training. With a spotlight on the Foundation's growth and accessibility in 2018, Trustees made the decision to employ a consultant with philanthropic experience to drive activity, develop great relationships with partners, engage SDL employees and seek new opportunities.

The SDL Foundation's guiding principal is to enrich people's lives by providing a hand-up, not a hand-out, enabling more self-sufficiency for the people it helps. It is structured with clear governance and decisions to partner with charities are based on an engaging mission which Trustees and employees are aligned to:

"The SDL Foundation, working with SDL employees, is committed to supporting charities and projects to provide aid through financial grants and educational and vocational training to help people or communities to realise their own potential in a sustainable way."

During 2018 the SDL Foundation worked closely with employees to support SDL's Corporate and Social Responsibility (CSR) programme, to enhance employee engagement with charitable causes close to and relevant to local offices. The Foundation donated over £10,000 to various charities including Children's Hospital, Colorado – match funding an employees' bike ride fundraiser.

In Thailand employees supported a Fund for Lunch Programme in a children's day care centre. Employees volunteered and raised over £6,000 from both fundraising and Foundation contributions. A rewarding experience, knowing that just £80 a month will feed up to 30 children.

The University of Sheffield, Motor Neurone Disease, Cash for Kids, Princess Alice Hospice and Dans La Rue are just some of the other local charities that have received the Foundation's support and employee involvement.

Support also continued for the Foundation's major partners during 2018. SDL is proud to have partnered with MicroLoan, Translator's without Borders, Hatua Likoni, Rejoice, Food for the Hungry, Bead for Life, The Princes' Trust and Give & Gain days. SDL looks forward to continuing some of these solid partnerships in 2019 and seeking out new ventures to support.

2018 also saw the SDL Foundation's first offsite visit to see first-hand how its support was helping Food for the Hungry in Kenya.

The SDL Foundation's success is largely driven by our employee's enthusiasm and creative thinking for volunteering and local office events. Everything from challenges to races and tournaments, to volunteering for beach clean ups and donating to local food banks, baby banks and sales – every office has had a part to play in making a positive difference to someone's life.

£1.7m
donated since 2009

21,000
people benefitting from the SDL Foundation

> I felt very fortunate to be picked for this trip with Food for the Hungry to see first-hand the great work they are doing in Africa. I cannot think of a more worthy cause.

LEAH NEWLAND
PMO AND SENIOR PROJECT MANAGER

Sustainability review continued

Environment

CO_2 reporting

Our global footprint was calculated by EcoAct using data we provided for a selection of sites, including the UK Head Office in Maidenhead and eight other major locations accounting for 67% of global revenue. This footprint was extrapolated to all remaining offices based on floor area, full time employee count (FTE) and revenue, with no material emissions excluded.

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have used the main requirements of the ISO-14064-1:2012 standard, data and estimates from our facilities, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2018.

Total GHG emissions were 20,248 tCO_2e comprised of the following:

- Direct emissions (Scope 1) were 690 tCO_2e, 3% of the total
- Indirect emissions (Scope 2) were 3,357 tCO_2e, 17% of the total
- Other, indirect emissions (Scope 3) were 16,201 tCO_2e or 80% of the total.

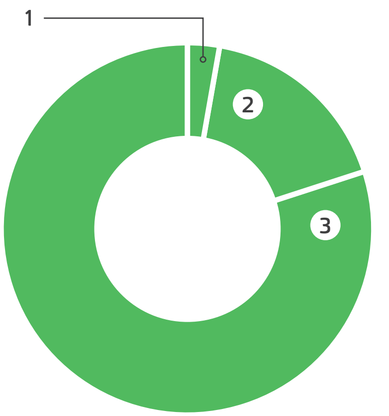
Year-on-year analysis

When compared with 2017, the total footprint has decreased by 6.8% (1,485 tCO_2e). The movement in emissions year-on-year is summarised below:

- Emissions from building energy consumption have decreased by 11% (458 tCO_2e). Natural gas and electricity use have decreased by 66% (413 tCO_2e) and 1% (46 tCO_2e) respectively. Gas consumption saw this significant decrease due to Amsterdam removing their gas boiler and the new Sheffield office not requiring gas consumption;
- There has been a significant decrease in emissions from staff commuting (40% reduction, 2,304 tCO_2e). This decrease is predominantly due to accounting for zero emissions associated with homeworkers, as well as an increase in non-emissions transport such as walking and cycling;
- Emissions from business travel have increased by 33% (1,750 tCO_2e), primarily flight travel (31% increase). This includes the acquisition of DLS.

Total GHG emissions (tCO_2e)

20,248 ↓6.8%



% of total GHG emissions

1	Direct emissions (Scope 1)	3%
2	Indirect emissions (Scope 2)	17%
3	Other, indirect emissions (Scope 3)	80%

Year-on-year intensity metrics

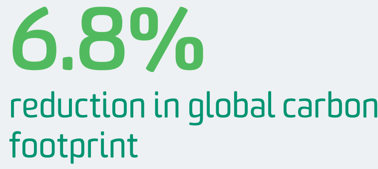
The intensity in terms of carbon per FTE decreased by 19% in 2018 reflecting increased efficiency in use of resources at our facilities. Our intensity of carbon per £m revenue has decreased by 17% driven both by an increase in revenue from £289.2m to £323.3m and a decrease in emissions from 21,733 tCO_2e to 20,248 tCO_2e.

Year	tCO_2e	Revenue (£m)	tCO_2e / £m	FTE	tCO_2e / FTE
2018	**20,248**	**323.3**	**62**	**4,149**	**4.88**
2017	21,733	289.2	75	3,587	6.06

YEAR-ON-YEAR COMPARISON OF GLOBAL CARBON FOOTPRINT

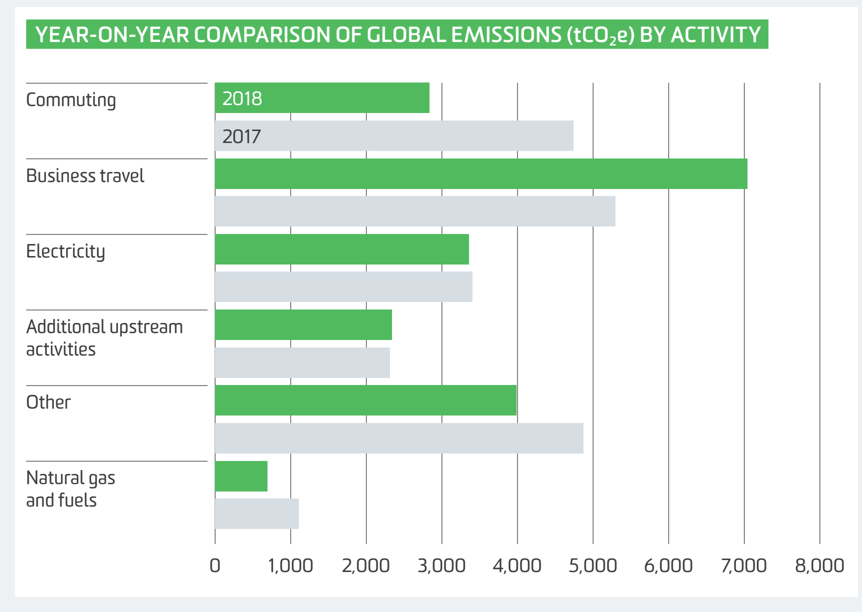
Type of emissions	Activity	2018 tCO_2e	2017 tCO_2e	% change
Direct (Scope 1)	Gas	214	626	-66
	Diesel	–	0.056	-100
	Pool cars / company cars	476	484	-2
	Refrigerant	–	–	–
	Subtotal	690	1,110	-38
Indirect energy (Scope 2)	Purchased electricity	3,357	3,402	-1
	Subtotal	3,357	3,402	-1
Indirect other (Scope 3)	Business travel (km)	7,044	5,293	+33
	Commuting	2,837	4,741	-40
	Additional upstream activities	2,338	2,314	+1
	Other [1]	3,982	4,872	-18
	Subtotal	16,201	17,220	-6
Total emissions		**20,248**	**21,733**	**-6.8**

1 Other is comprised of waste, water, deliveries, stationery, printed materials, postage, and hotel stays.



19%
reduction in carbon per FTE

66%
reduction in natural gas use



Risk management

Principal risks and uncertainties

The Board considers these to be the principal risks faced by the Group that may impact the achievement of our strategic objectives and the Group's long-term positioning and performance.

We have an established risk management process built around our Risk Register to identify, assess and monitor the principal risks that we face as a business. We have performed a review of those risks that we believe could seriously affect the Group's long-term positioning and performance, reputation or its ability to deliver against its KPIs. This review included an assessment of those risks that we believe would threaten the Group's business model, future performance, human capital and innovation. Following the review of the principal risks and our strategic drivers we have included an additional shorter-term risk; the timely synergy realisation and integration of DLS into the wider Group.

The risk management process relies on our assessment of the risk likelihood and impact and on the development and monitoring of appropriate internal controls. Our process for identifying and managing risk is set out in more detail below. We maintain a Risk Register for the principal risks faced by the Group and this is an important component of our governance framework and how we manage our business. As part of our risk management process, risks are reviewed as a top down and bottom up activity at the Group and business function level. The content of the Risk Register is considered and discussed through regular meetings with senior management and reviewed by the Executive management team. Each principal risk is reviewed at least annually by the Board.

The table sets out our principal risks, their link to our strategic objectives, their movement during the year and a summary of key controls as well as any mitigating factors. The Board considers these to be the most significant risks faced by the Group that may impact the achievement of our strategic objectives as set out on pages 36 to 49. They do not comprise all of the risks associated with our business and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business

Management of risk

The Board is responsible for setting the levels of acceptable risk and they participate in reviewing the risks and controls to ensure that the appropriate mitigations are in place. Whilst the Board retains overall responsibility, the Audit Committee, Executive management team 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.

BUSINESS RISK FRAMEWORK

Board

- Sets strategic objectives and agrees acceptable risk profile
- Approves Group policies and procedures
- Delegates authority to the Audit Committee
- Challenges and assesses the Risk Register with input from the Audit Committee

Audit Committee

- Monitors risk management policies and procedures against strategic objectives
- Receives and reviews the Risk Register after validation by the Executive management team
- Performs detailed reviews of financial and other risks as appropriate

Executive management team

- Regular review of operational and strategic risk: identification / analysis / evaluation / mitigation
- Reporting to the Board and the Audit Committee

Business functions

- Members of the Executive management team (above) together with business function heads and senior management consolidate the business, functional and Group risks to compile the Risk Register

KEY TO STRATEGIC OBJECTIVES

Build deep relationships with our customers

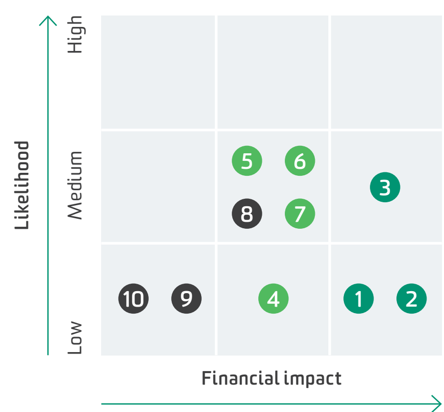
Be the world's best Language Service Provider

Be the leader in Language and Content Technologies

Be the leader in content solutions in our target premium segments

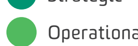
Enable our people to be their best

Achieve our target operating model



MAPPING OUR RISKS

Key
1 Acquisition strategy
2 Competition strategy – services
3 Competition strategy – technology
4 Human resources
5 Information security
6 Business transformation and control
7 Donnelley Language Solutions integration
8 Currency movements
9 Political and economic environment
10 Taxation

Strategic
Operational
 Financial

Strategic risks

Strategic objectives impacted

RISK

Stakeholder expectations are not realised. Fall in market value.

MITIGATION

Risk analysis and due diligence carried out for each acquisition. Contribution to Group results from each acquisition is identified including understanding of risk to projected results.

2 Competition strategy – services

Strategic objectives impacted

RISK

Operating model does not support growth ambition. Services business fails to sustain competitive advantage.

MITIGATION

The delivery function continues to embed its global operating model which provides enhanced governance, process harmonisation, efficiencies and scalability. Continued investment and development of technology into the translation process continues to keep SDL competitively positioned.

Cross functional pricing team is in place to ensure we compete on price, product and service.

3 Competition strategy – technology

Strategic objectives impacted

RISK

SDL is unable to clearly identify or deploy or sustain competitive advantage, including product development.

Continued competition from industry, and interest from non-industry, participants.

The product portfolio is complex and we are moving to innovative connected product technologies. Success relies on investing in products and platforms and developing innovation to compete effectively.

MITIGATION

Business product development and product marketing oversee competitive positioning.

Maintain controlled development strategy and innovation based on strategic roadmaps. Reviews of anticipated return on investment are being further enhanced. Product integration continues where appropriate.

Risk management continued

Operational risks

4 Human resources

Strategic objectives impacted

RISK

Company dependent upon the ability and experience of certain key employees in key functions.

Market competition affects our ability to attract and retain key talent.

Risk increased

Strong competition from other employers and competitors combined with the need for cost control means retention of talent is a critical risk which requires a strong process for retention and engagement.

MITIGATION

The Learning Zones initiative has been rolled out across several functions. Bespoke fast track development training for identified personnel implemented.

Talent review and succession plans in place and regularly reviewed by Executive management and the Board.

We listen to feedback from colleagues to assess their needs via open conversations, social media, surveys and performance reviews.

5 Information security (including cyber)

Strategic objectives impacted

RISK

Legislation/client requirements: fail to respond to emerging security legislation and/or client's requirements.

Data privacy and protection – financial loss, disruption or damage to the Group's reputation from failure of its information technology systems.

Risk increased

High profile incidents within the technology sector plus our increasing business dependence on networked systems, the design of new and connectable products and embedded software plus the increased cyber security threat has increased our exposure.

MITIGATION

Central security team established and permanent security lead in position.

'Think Security' programme is ongoing which includes implementing an email security spoofing tool and review of File Transfer Protocol processes.

Formal certification schemes are maintained and include internal and external validation of compliance e.g. ISO27001 certification. Two more sites were brought into ISO27001 scope in 2018.

Security policies reviewed and updated to comply with HiTrust.

Secure Translation Environment being deployed – provides enhanced security options to customers.

Cross functional forum established to standardise approach to information security within the product range.

The compliance team provides direction around data and data protection, and our response to GDPR.

6 Business transformation and control

Strategic objectives impacted

RISK

Planned returns from investment in systems not realised.

Quality processes and controls are in place, standardising practices throughout the organisation.

MITIGATION

Programme steering/project management meet regularly. Benefits tracking is a core part of these meetings.

There is appropriate executive level oversight for all the transformation activities which are supported by experienced resources from within the business and externally as required.

Rolling programme of local infrastructure and hardware refreshes implemented across the estate.

Continuation of initiatives to enhance the supporting control environment across key business processes.

7 Donnelley Language Solutions integration and realisation of synergies

Strategic objectives impacted

RISK

New principal risk.

MITIGATION

Integration team in place and detailed execution plan being implemented.

Systematic tracking of benefits and KPIs.

Risk management continued

Financial risks

8 Currency movements

Strategic objectives impacted

RISK

Trading patterns and/or intercompany trading/loan patterns expose the Group to foreign exchange risk.

No change

MITIGATION

Periodic reporting and review of Group currency exposures.

9 Political and economic environment

Strategic objectives impacted

RISK

Potential changes to tax, trading and other arrangements with European countries/ authorities.

Decline in demand from key customers and verticals.

No change

MITIGATION

At the time of publication, the nature of the UK's future trading relationship with the EU is still to be determined. As further details of the terms of Brexit emerge, we will continue to assess and monitor the potential risks and impacts of these on stakeholders and take appropriate measures.

Maximum disruption scenarios have been developed with external advisors.

10 Taxation

Strategic objectives impacted

RISK

Assessment by tax authorities results in disallowance of management and other intercompany charges.

No change

MITIGATION

Formal agreements in place between all Group companies.

All intercompany transactions take place at arm's length.

Business models reviewed by Head of Tax.

Effect of Brexit

The Group operates in a range of language service and content technology markets around the world. We sell to a broad range of customers, across many industries, with our target clients being large corporates. We operate in nearly 40 countries around the world with our principal geography being the USA which accounts for c 40% of revenues. EMEA revenues (inc UK) account for 33% of our Group revenues. We operate from more than 30 offices across 19 EU member states. This allows us to manage EU requirements from our EU locations and we have a long history of trading with subsidiaries of large global Western European headquartered organisations.

Therefore, the concept of exporting to and importing from multiple countries with the related systems requirements is already functioning across the business. There remains, even at this late stage, considerable uncertainty around the exact nature and timing of the UK's exit from the EU, which makes it difficult to develop specific plans for the various potential outcomes. However, in the second half of 2018 we established a Brexit Committee for planning the UK's exit from the EU to consider the key risks and changes that may be required. This Committee is led by the Group CFO and includes senior staff from the key areas that may be affected including:

- Group Finance, Operational and Commercial Finance and Tax and Treasury;
- Group HR, for employment and related matters;
- Group Legal & Contracting, including intellectual property, data protection and supplier contracting;
- Group Information Services, including IT systems, location of IT infrastructure and location of data;
- Cloud operations; and
- Language Services Supply Chain and Vendor management.

The Committee appointed external advisers to help assess the key potential Brexit risks to SDL based on the scenario of maximum change and in light of discussions with the Committee during a workshop on 15 November 2018.

The objectives of this initial workshop were to further enable SDL's understanding of what its priority Brexit risks are, so that SDL can develop a detailed mitigation plan that allows it to proactively manage the risks presented by Brexit, continue its operations with minimum disruption and achieve its strategic objectives in the event of a scenario of maximum change. The rationale for using this scenario is that this allows for the maximum level of preparedness in the face of continued uncertainty; the Group can then scale back its planning if required, in response to developments in the negotiations between the UK and the EU.

Although uncertainty remains as to the outcome of the Brexit negotiations between the UK and EU, the Group has adopted an approach that we believe will allow us to manage the risks and opportunities that Brexit brings.

These could include:

- Changes in market access that impact how we transact intra-Group operations, share data, manage tax and foreign exchange exposures and manage our intellectual property
- Changes in people-specific rules and regulations that could impact the international mobility of our colleagues
- Changes in market opportunities that impact which areas of our international locations we will choose to grow.

The Committee meets regularly to review papers submitted by the subject matter experts and monitors an action list, to identify ways to optimise the impact of this change. The Committee monitors negotiation developments, actively considers the possible impacts of the UK's departure from the EU on our business and plans for changes to our processes and procedures that may be required. The Committee, through its members, liaises with our customers, suppliers and partners, and is supported in its work by specialist external advisors. The Committee has issued a series of briefing notes and FAQs to customer-facing employees, so they can respond to customer queries. The minutes of these meetings and the subject-matter papers are managed by our Corporate Project Management Office.

Due to the already global nature of Company's business and service capabilities across the globe, the Committee does not currently consider that we will be materially impacted by the UK's departure from the EU.

Risk management continued

Viability statement

In accordance with provision C.2.2 of the 2016 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 Directors have assessed the ability of the Company to meet its liabilities over the assessment period, taking into account the current financial position, outlook and principal risks.

The viability of the Company has been assessed over a three-year period to December 2021. The Directors have determined that a three-year period is an appropriate timeframe for assessment, because it is aligned to the Group's strategic planning process and therefore reflects the Board's best estimate of the future viability of the business.

The Directors have based their assessment of viability on the Group's current strategic plan, which is updated annually and approved by the Board which includes the six strategic drivers (detailed on pages 36 to 49). The strategic plan also addresses the Group's principal risks (detailed on pages 60 to 65) as well as making assumptions about factors including: the global economy; competitor activity; changing customer behaviours; and the costs associated with delivering the strategy.

The viability of the Company has been assessed taking into account the Company's current financial position, including external funding in place over the assessment period, and after modelling the impact of certain scenarios arising from the principal risks which have the greatest potential impact on viability in that period.

The impact of various scenarios have been modelled and applied to the 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. None of these scenarios individually threaten the viability of the Company. These scenarios assumed that external debt is repaid as it becomes due and include associated synergies of the DLS business.

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 7% of Group sales and our top 10 clients account for less than 25% of Group sales.

Having assessed the principal risks, the Board has determined that we have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a period of three years from 1 January 2019 to December 2021.

This conclusion is based on our current strategic plan approved by the Board in 2018. We, however, operate in changing economic and market conditions which may cause us to adapt our strategic plans when reviewed in 2019. We will continue to evaluate any additional risks involved which might impact the business model.

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

Adolfo Hernandez
Director
20 March 2019

Risk scenarios

Scenario	Principal risk
ACQUISITION / TRANSFORMATION Failure to crystallise synergies associated with acquisition or efficiencies from transformation activities.	**PRINCIPAL RISK** – Competition strategy – Acquisition strategy – Business transformation and control – Human resources
CYBER RISK Security incident (external or insider attack, or unintentional actions). Loss of confidential information.	**PRINCIPAL RISK** – Information security – Competition strategy – Acquisition strategy – Business transformation and control
ECONOMIC DOWNTURN Political and economic uncertainty. Drop in demand in key customers and verticals – decline in business performance.	**PRINCIPAL RISK** – Acquisition strategy – Human resources – Currency movements – Political and economic environment

Governance

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Governance

Chairman's introduction

The Directors submit their report and the audited financial statements of the Company, SDL plc, and the Group, which includes its subsidiary undertakings for 2018. SDL plc is the listed holding company for the SDL group of companies. Its shares are listed on the London Stock Exchange.

Dear Shareholder

This report explains how the Group is controlled and managed and how we, the Board, have carried out our duties: our oversight of strategy and management activity and how we have applied good governance practices throughout the year. It also explains how we have complied with the requirements of the UK Corporate Governance Code, related regulations and guidance.

We have a governance framework that promotes informed and transparent decision-making processes and we encourage open discussion and constructive challenge. We know that maintaining this robust and effective cultural approach is essential to support the application and execution of our strategy.

The Board has received and reviewed input from advisors on the latest revision of the UK Corporate Governance Code and we will report further on the changes to the governance framework in next year's Annual Report, when the revised Code becomes effective in our 2019 financial year.

Board changes

Dominic Lavelle stepped down from the Board on 29 March 2018 when a medical condition meant that he was unable to resume his full time executive role. I would like to thank Dominic for his contribution to SDL.

Xenia Walters joined SDL as Interim Chief Financial Officer in June 2017, reporting into Adolfo Hernandez, SDL's Chief Executive Officer. Xenia was previously Chief Financial Officer of SDL's Fredhopper business, where she played an instrumental role in its successful divestment. Xenia has also held a number of senior finance roles across a range of industry sectors.

We are delighted to welcome Xenia to the Board.

The role of the Board

Our key objective is to deliver the long-term success of the Company and long-term returns for stakeholders.

This requires the Board to set the Company's strategic goals, ensure that the necessary resources are in place, provide oversight of Executive management's performance in delivering against the agreed strategy and set the Company's risk tolerance levels.

My role as Chairman is to lead the Board and ensure that it works effectively in all aspects of its role. That includes collaboration with the Executive team, providing support and guidance to complement and enhance the work undertaken, constructively challenge management when necessary and exercise an appropriate level of careful, rigorous enquiry and intellectual debate.

As part of the process of implementing the strategy, we regularly review the Board's composition and size, to ensure it has the right balance of talent, skills and experience required for success. In 2018 we asked Lintstock Ltd to undertake an external review which also covered the areas previously recommended for improvement. The results of this review are on page 79.

Culture

We recognise the fundamental role that the culture of an organisation plays in delivering value to stakeholders. The transformation phase of the business required a shift in our culture and values to drive the strategy and become a high-performance organisation. It is the Board which is ultimately responsible for ensuring our activities reflect the culture we wish to instil in our colleagues and other stakeholders and drive the right behaviours. We set the tone from the top and lead by example.

Vision

We seek to eliminate language as a barrier to communication and help people connect with one another.

Mission

To facilitate understanding by humanising the digital world. To enable organisations to establish a personal connection with customers worldwide, across all channels, languages, devices and touch points.

Values

Passionate – we love information and connecting people across the world; Proactive – we are adaptive and embrace new ways of doing business; Authentic – we are confident in our abilities and always stay true to our mission; Collaborative – we work as a team with our partners and for our customers.

Whilst we continue to promote the SDL culture internally, amongst colleagues, we also work hard to understand other stakeholders. For example, know what matters to our customers and innovate to meet their needs.

We meet with shareholders, not only at the Annual General Meeting (AGM) but also via scheduled events where we get feedback that informs our decisions.

The Board places great importance on feedback from stakeholders: colleagues, customers, shareholders, suppliers and the communities in which we operate. Through these we track progress against our strategic goals.

We adopt a risk based approach to modern slavery and identify high risk territories in which SDL ensures that employees have completed, and regularly refresh, the relevant training and are aware on how to identify unethical behaviour. Training for all employees on this matter is mandatory.

In 2018, we refreshed our whistle-blowing process, replacing the internal hotline with an external, independent, multilingual facility available to all our employees worldwide. This demonstrates our commitment to supporting an open and honest workplace for our colleagues.

The Board receives reports throughout the year on the matters discussed above.

Succession planning

No business can succeed without the contributions of its employees. Therefore retaining, developing and identifying succession requirements are key. In 2018 the Board and executive management spent significant time discussing the 2018 talent review and succession plan.

This plan was a worldwide, comprehensive analysis of the talent pipeline and focused on identifying potential leaders and their development needs against future plans and requirements for the business. Key positions were identified and plans put in place for an appropriate pipeline of talent for medium and long-term succession.

Selecting the right individuals from a diverse talent pool is a key issue and the Board ensures that the talent pipeline is managed to support our long-term strategy.

Risk management

The principal risks and uncertainties that we described last year, and that could have an impact on our business, have evolved and so has our response to them.

We remain focused on ensuring that the Group's risk management and internal control systems are robust, predicting and reducing risks while aiming to take advantage of any opportunities that may emerge. Our risk management framework gives reasonable assurance that we've identified and addressed our biggest risks.

We also recognise the uncertainties that political and geopolitical risks present (Brexit and the location of some of our worldwide locations) and have operated a series of crisis scenarios in real time. These 'war gaming' exercises involved colleagues across different functions and the outcomes are helping us build resilience within the business.

Protecting the Group from operational and reputational risk is an essential part of the Board's role. Supported by the Audit Committee, we have continued to drive a better understanding of the risks we face, further developed and tested our tolerance on risk and ensured our Group risk map continues to reflect the Group's strategic objectives and opportunities.

Diversity and inclusion

We have a diverse workforce that matches our customers and delivers our business goals.

As per our report 'Promoting Equality at SDL: Gender Pay Gap Report', published in 2018, we employ slightly more women (52%) than men. Four of our eleven Executive management members, and nearly half (49%) of the senior executives at the next level are women. Plus we are monitoring our pipeline of talent, with a focus on growing and developing women for more senior roles.

We are also a multinational and multicultural company, employing people in 39 countries. Having a diverse workforce helps us to create, translate, manage and deliver culturally relevant content, understood by all.

Engaging with shareholders

We engage with our shareholders through a full calendar of events and meetings, including the AGM, investor roadshows, analyst events, Capital Market Days and individual shareholder meetings.

The Board places great importance on these meetings, which help inform our decisions, track progress and monitor culture.

Meaningful engagement with shareholders is one of the key aspects of corporate governance. I and my fellow Directors welcome open, meaningful discussions with shareholders, particularly with regard to governance, strategy, succession planning and remuneration. The Board also receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback.

Conclusion

We have embraced change and transformation across many areas of the business, and I believe SDL is well positioned both to address its immediate challenges and to plan for the future. I'm looking forward to the role we will all play in delivering this.

David Clayton
Chairman

Board of Directors

An experienced and effective team to deliver long-term value

COMMITTEE MEMBERSHIP

Key

- A Audit Committee member
- N Nomination Committee member
- R Remuneration Committee member
- ● Chair of Committee

72 Executive team
Read more here.

David Clayton

N

Non-Executive Chairman

Appointed December 2009 (9 years)

RELEVANT EXPERIENCE AND SKILLS

David Clayton joined SDL as a Non-Executive Director in December 2009 and has served as Senior Independent Director and for nine 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, Chairman of the Board of Trustees of the charity Changing Faces and Dixons Academies Charitable Trust Ltd.

EXTERNAL APPOINTMENTS

David is on the boards of FCS (UK) Limited, Solar Archive Ltd and a trustee of Changing Faces and Dixons Academies Charitable Trust Ltd.

Adolfo Hernandez

Chief Executive Officer

Appointed April 2016 (3 years)

RELEVANT EXPERIENCE AND SKILLS

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.

EXTERNAL APPOINTMENTS

None.

Xenia Walters

Chief Financial Officer

Appointed April 2018 (1 year)

RELEVANT EXPERIENCE AND SKILLS

Xenia Walters was appointed Chief Financial Officer of the Company effective 3 April 2018 and was formerly Interim Group CFO from June 2017. Prior to joining the Group, Xenia held CFO roles within a number of private equity backed companies and was Group Financial Controller and UK CFO at Regus plc. Xenia is a Chartered Accountant, having qualified with Price Waterhouse in 1995. Xenia holds a BSc in Economics from Birmingham University and an MBA from Henley Management School.

EXTERNAL APPOINTMENTS

None.

Glenn Collinson
A N R

Independent Non-Executive Director

Appointed June 2014 (5 years)

RELEVANT EXPERIENCE AND SKILLS

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 BSc in Physics and a MSc in Electronics from Durham University, as well as an MBA from Cranfield University. Glenn currently holds other Non-Executive Director positions within the technology sector.

EXTERNAL APPOINTMENTS

Glenn is a Director of Vsora SAS.

Mandy Gradden
R A

Independent Non-Executive Director

Appointed January 2012 (7 years)

RELEVANT EXPERIENCE AND SKILLS

Mandy Gradden is an experienced corporate CFO with more than 20 years' financial and senior management experience. She is CFO of the FTSE 250 information company 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.

EXTERNAL APPOINTMENTS

Mandy is CFO on the Board of Ascential plc.

Alan McWalter
A R N

Independent Non-Executive Director – Senior Independent Director (SID)

Appointed March 2014 (5 years)

RELEVANT EXPERIENCE AND SKILLS

Alan McWalter is the Chairman of Churchill China plc, Belfield Group and Newmarket Promotions. 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.

EXTERNAL APPOINTMENTS

Alan is currently Chairman of Churchill China plc, Belfield Group Ltd and Newmarket Promotions Ltd.

Christopher Humphrey
A N R

Independent Non-Executive Director

Appointed June 2016 (3 years)

RELEVANT EXPERIENCE AND SKILLS

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 The Vitec Group plc. He is also the SID and Chairman of the Audit Committee of AVEVA Group plc and Chairman of Eckoh plc. Christopher was Group Chief Executive Officer of Anite plc from 2008 until 2015 and 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 has a BA (Hons) in Economics, is a Chartered Management Accountant, a Fellow of CIMA and has an MBA from Cranfield School of Management.

EXTERNAL APPOINTMENTS

Christopher serves as SID and Chair of the Audit Committee for AVEVA Group plc and The Vitec Group plc and is Chairman of the Board at Eckoh plc.

Executive team

The right skills and experience to run the business and deliver the strategy

Betsy Fallon
EVP Global Client Services

Location Wakefield, USA

Betsy joined the SDL Executive leadership team in 2016. She is responsible for ensuring that her team and colleagues enhance the customer experience and maximise customer success. She oversees technical and non-technical teams and initiatives ranging from professional services and technical support to renewals and voice of the customer programmes. Betsy graduated with a Bachelor of Arts degree in Philosophy from the American University and holds an MSEd in Organisation Development from the University of Miami.

RELEVANT EXPERIENCE AND SKILLS

Betsy brings over 20 years of progressive customer-facing, operations and marketing experience in technology companies. She joined SDL through the acquisition of Idiom Technologies Inc., where she served as Vice President of Marketing. Prior to Idiom, Betsy was Vice President of Marketing for Context Media (acquired by Oracle), a leading provider of enterprise content integration software and services. Betsy is a trustee of the SDL Foundation.

Thomas Labarthe
Chief Revenue Officer

Location Lisbon, Portugal

Thomas joined SDL in 2016 and is currently Chief Revenue Officer, with responsibility for our commercial, sales and project management operations across all our language and content offerings, having previously been EVP of Business and Corporate Development. Prior to SDL, Thomas was Managing Director at Lookout, leading commercial and sales operations in Europe. He has also held several leadership positions at Alcatel-Lucent. Thomas holds an MS degree in Electronics with Honours from the Ecole Nationale Supérieure de l'Electronique et de ses Applications.

RELEVANT EXPERIENCE AND SKILLS

Thomas brings 20 years of experience in the enterprise software and services market. He is also a truly international executive, who speaks fluent English, French, Spanish, Portuguese and has lived in many countries across Europe and the Americas.

Jim Saunders
Chief Product Officer

Location Nice, France

Jim joined SDL in March 2016 and is responsible for leading the global product organisation, which includes the Language and Content Technologies organisations, product strategy and cloud operations. Jim graduated with an Honours BSc degree in Computer Science from the University of Essex.

RELEVANT EXPERIENCE AND SKILLS

Jim has over 30 years' experience leading large highly distributed global product organisations delivering mission critical enterprise software products. He has worked extensively in the US for major software companies including Digital Equipment Corporation, Apple, Netscape, America Online, and in Europe with companies such as Reuters, Misys and Acision. Most recently, he led the global product organisation of Xura (previously Acision) leading a major product transformation and the successful integration into Comverse in 2015.

Adolfo Hernandez
Chief Executive Officer

Xenia Walters
Chief Financial Officer

70 Biographies
Read more here.

Peggy Chen
Chief Marketing Officer

Location San Jose, USA

Peggy has been Chief Marketing Officer at SDL since July 2016 and graduated with both a Bachelor of Science and Masters of Engineering in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology.

RELEVANT EXPERIENCE AND SKILLS

Peggy has global responsibility for go-to-market strategy, corporate branding and communications, product and industry marketing, campaigns and field marketing.

Prior to joining SDL, Peggy led product marketing for Oracle's WebCenter and BPM solutions. She has also led product marketing for Oracle's Embedded solutions, drove product strategy for Oracle's RFID and Sensor solutions and was responsible for product management of the Oracle's mobile platform and mobile E-Business Suite offering.

Massimo Ghislandi
EVP Translation Productivity

Location Maidenhead, UK

Massimo joined SDL in 2006 and leads the Translation Productivity Software group. Massimo has an MBA from Bocconi University in Milan, and a Post-Graduate Diploma in Marketing from The Chartered Institute of Marketing.

RELEVANT EXPERIENCE AND SKILLS

Massimo has over 20 years' experience working in international sales and marketing roles for engineering and technology companies. Before joining SDL, Massimo worked for Avery Dennison, ITT Corporation and Acterna (now JDSU).

Massimo leads a large sales and marketing team and has a strong background in sales, revenue-focused marketing and driving growth within international environments. Whilst at SDL, he has gained a deep understanding of the localisation industry and how technology can help companies with their global content challenges

Azad Ootam
Chief Transformation Officer

Location Maidenhead, UK

Azad joined SDL in June 2016. Azad started his career with Accenture in 1987, leaving in 2006 having been a financial services partner for the previous seven years. He then joined the Prime Minister's Delivery Unit and was seconded to the Home Office until December 2009. In early 2010 he joined Royal Mail and assisted in its privatisation and ongoing improvement programme until December 2015. Azad graduated with a Bachelor of Science degree in Computer Engineering from the University of Manchester.

RELEVANT EXPERIENCE AND SKILLS

Azad has over 30 years' experience working across a wide set of industries including financial services, government, utilities, telecoms and media. He has spent much of his career on large-scale transformations as well as strategic direction setting, organisational redesign, radical cost-reductions, programme management and a variety of operational roles.

Executive team continued

Maria Schnell
SVP Global Language Officer

Location Stuttgart, Germany

Maria joined the Executive team as SVP Global Language Officer in March 2018. Maria graduated as a Diplom-Übersetzer from the University of Heidelberg in Germany.

RELEVANT EXPERIENCE AND SKILLS

Maria joined SDL in July 2006 as a Localisation Project Manager and has taken on diverse operational and commercial roles within SDL before taking ownership of global language production in late 2016.

Maria started her career as an Account Manager and Analyst with MRI Market Research in Germany, where she specialised in quantitative market research.

Maria has a solid track record of leading large teams in delivering operational excellence within cost, quality and time constraints across geographies, cultures and languages.

Christophe Djaouani
Senior Vice President

Location Paris, France

Christophe joined SDL's Executive team following the acquisition of Donnelley Language Solutions in July 2018. He began his career in the language services industry with RR Donnelley in New York in 1999, eventually moving into the role of SVP and Managing Director of DLS. Christophe is a graduate in Sales and Marketing Techniques from the University of Grenoble.

RELEVANT EXPERIENCE AND SKILLS

Christophe led DLS from 2010 and continues to lead the business through its integration into SDL. Under his leadership, DLS achieved 15 consecutive years of growth. His career includes experience in production, sales and management and servicing customers in highly-regulated industries. Christophe transformed a small team into a market-leading global organisation providing a comprehensive localisation service portfolio to customers worldwide.

Roddy Temperley
Chief HR Officer

Location Maidenhead, UK

Roddy joined as Head of HR and a member of the Executive team in July 2013 and is now Chief HR Officer. Roddy has created an industry-leading HR team that delivers across all disciplines with a people strategy that is continuously refined to deliver against our ambitious business strategy. Roddy graduated with a Master of Arts (Hons) degree in Psychology from the University of Dundee.

RELEVANT EXPERIENCE AND SKILLS

Roddy has a solid track record of leading high performing HR teams at Credit Suisse, SAP, PeopleSoft and Unisys, Xerox and others.

Governance continued

Leadership

Governance framework

The Board of Directors is responsible for overall Group strategy and for the delivery of that strategy within a robust corporate governance and corporate responsibility framework. That framework is described in the following pages.

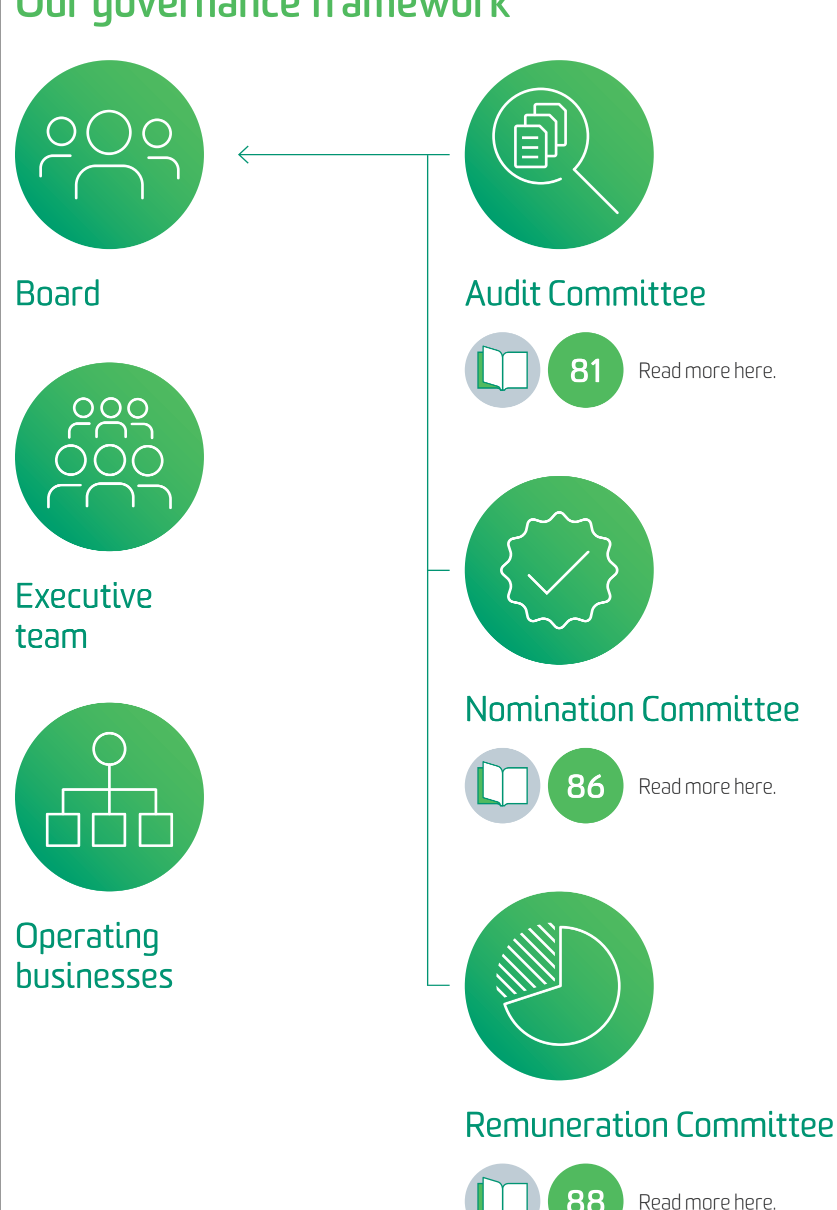
The framework allows us to run our business whilst maintaining high standards of governance that support our aim of trust and transparency. Having delegated the detailed operation of the business to the CEO and CFO, the Board holds them to account for their responsibilities. In order to do this effectively, 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.

UK Corporate Governance Code compliance

The Board confirms that throughout the year ended 31 December 2018 the Company applied the main principles and complied with the relevant provisions set out in the UK Corporate Governance Code (Code) issued by the Financial Reporting Council (FRC) in April 2016.

The Code can be found on the FRC website at **www.frc.org.uk**

Our governance framework



Governance: Leadership continued

The Board

For most of 2018 the Board consisted of the Chairman, two Executive Directors and four independent Non-Executive Directors. In April 2018 Xenia Walters was appointed as CFO, replacing Dominic Lavelle. Consequently, the balance between Executive and Non-Executive Directors was unaffected.

All the Directors bring a broad and valuable range of skills and experience to the Group and further details of these together with other biographical details are set out on pages 70 to 71.

The division of responsibilities between the Chairman, Chief Executive and other Directors is clearly established, and no individual has unrestricted powers of decision.

There is strong Non-Executive representation on the Board, including the Senior Independent Director (SID), Alan McWalter, providing effective balance and challenge.

Matters reserved for the Board

The Board is responsible for those matters that are considered of significance to the Group owing to their strategic, financial or reputational implications or consequences. These have been identified and reserved for the Board's approval and include:

- The Group's values and standards
- Its strategic aims and objectives
- Approval of major capital projects and material acquisitions and disposals
- Approval of annual operational and capital expenditure budgets
- Approval of the Company's dividend and corporate governance policies
- Agreeing the Group's risk appetite
- Determining the Remuneration Policy for the Executive Directors.

All Directors receive sufficient relevant information on financial, business and corporate issues prior to meetings.

Board Committees are responsible for reviewing and dealing with matters within its own terms of reference. Each Committee reports to, and has its terms of reference approved by the Board. The Committee papers and minutes are, where appropriate, shared with all Directors.

Board meetings

A planned programme of work is established to ensure all matters are covered and to allow sufficient time for debate and challenge.

Papers and presentations are received from the Executive Directors on relevant topics and Executive management team members and other senior managers are regularly invited to attend meetings for particular topics. This allows the Board to engage with colleagues from across the Group.

The Board is provided with accurate and timely information, including input from advisers where necessary. Board meetings have a framework of the following items: financial performance; strategy development and planning; overview of our businesses; and governance.

During the year, the Board and its Committees continued to focus on delivering the Company's transformation strategy. A two-day strategy meeting was held in June which included in-depth discussions of strategic matters and a number of presentations by senior management.

A forward agenda for the Board is maintained, setting out items for consideration periodically in the future. This provides context for the current meeting agenda, setting out when items will be tabled for consideration through the annual cycle of events.

Division of responsibilities

The responsibilities of the Chairman, CEO, SID and other Directors are clearly defined and no individual has unrestricted powers of decision. The Chairman is responsible for the leadership of the Board, while the responsibility for the day-to-day management of SDL has been delegated to the CEO.

The CEO is supported by the Executive management team which is responsible for making and implementing operational decisions and for making recommendations to the Board.

Board Committees

There are three Board Committees: Audit, Remuneration and Nomination. Members are appointed by the Board upon recommendation of the Nomination Committee which reviews regularly the composition of the Board and its Committees. Only members of the Committees are entitled to attend their meetings, but others may attend by invitation. Memberships are as follows:

- The Audit Committee consists of Mandy Gradden (who chairs the Committee), Glenn Collinson, Alan McWalter and Christopher Humphrey 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. The Board has considered the requirements of the Code with respect to the composition of audit committees and is satisfied that all members of the Audit Committee have recent and relevant financial experience and that the Committee as a whole has competence relevant to the sector in which the Group operates.
- The Nomination Committee consists of Alan McWalter (who chairs the Committee), David Clayton, Glenn Collinson and Christopher Humphrey, ensuring that a majority of the Committee's members are independent Non-Executive Directors.
- 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.

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 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.

The Nomination 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.

Directors also attended an annual two-day strategy event, held off site, to enable further, more detailed, discussion of the Group's position and future development. This strategy event is now a regular fixture in the Group's governance calendar and has also been attended by members of the Group's Executive management team.

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

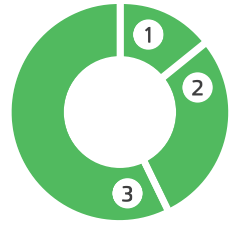
Independence

Independent Non-Executive Directors form the majority of the Board and are appointed for an initial three-year term, subject to annual re-election by shareholders at the Annual General Meeting. The Board considers each of its current Non-Executive Directors to be independent in character and judgement, providing objective challenge to management in order to support the ultimate good of the Group and that there are no business or other relationships likely to affect, or which could appear to effect, the judgement of the Non-Executive Directors.

ATTENDENCE TABLE

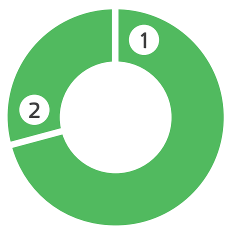
	Board	Audit Committee [3]	Nomination Committee	Remuneration Committee
David Clayton, Chairman	12(12)	–	2(2)	–
Glenn Collinson, NED	12(12)	5(5)	2(2)	7(7)
Mandy Gradden, NED	12(12)	5(5)	–	7(7)
Adolfo Hernandez, CEO	12(12)	–	–	–
Christopher Humphrey, NED	12(12)	5(5)	2(2)	7(7)
Dominic Lavelle, CFO [1]	0	–	–	–
Xenia Walters, CFO [2]	10(10)	–	–	–
Alan McWalter, SID	12(12)	5(5)	2(2)	7(7)

1 Dominic Lavelle resigned on 29 March 2018 whilst on extended leave of absence.
2 Xenia Walters attended the January and March Board meetings by invitation as Interim CFO and all meetings thereafter as CFO, following her appointment to the Board on 3 April 2018.
3 Additional technical Audit Committee meetings were scheduled in the year (before the half and full year results are published) to allow sufficient time to complete any work arising from the technical meeting and reported to the main Board.



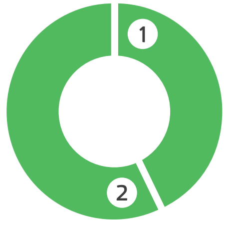
Board composition

1	Chairman	1
2	Executive Directors	2
3	Non-Executive Directors	4



Board gender

1	Male	71%
2	Female	29%



Board tenure

1	3 months to 3 years	43%
2	4 to 9 years	57%

Effectiveness

All of the Non-Executive Directors are independent of management and all 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 Executive Directors.

All of the Directors holding office at 31 December 2018, had either been reappointed at the AGM on 26 April 2018, or in the case of Xenia Walters, appointed since that date and all of them have submitted themselves for election or re-election, as appropriate, at the forthcoming AGM.

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

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

The Board considers that each of the Non-Executive Directors are independent of the Group and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

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 to direct the Company's and the Group's business activities.

The Directors review actual or potential conflicts of interest in respect of any Director at meetings of the Board and its Committees where the business being conducted means it is appropriate to do so.

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. 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 is in place. Further detail is provided in the Nomination Committee section. The Human Resources department has a wider succession development plan for senior management roles across the Group, prioritising those positions likely to require development and/or recruitment within the next three 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. This succession plan will be kept under review.

The Board is satisfied that the Chairman and each of the Non-Executive Directors are able to devote sufficient time to the Company's business. Non-Executive Directors are advised on appointment of the time required to fulfil their role. The Board is satisfied that the number of appointments held by each Director in addition to their position with SDL is appropriate to allow them to fulfil their obligations to the Group.

Code of Conduct

All employees are required to comply with the Code of Conduct, which is intended to help them put SDL's principles into practice. This clarifies the basic rules and standards colleagues are expected to follow and the behaviour expected of them. Colleagues must complete mandatory Code of Conduct training and annually attest to compliance with the Code.

Induction and development

Led by the Chairman, a comprehensive induction programme is tailored for each new Director prior to their appointment to the Board. The programme is tailored for the individual, taking account of their existing knowledge, specific areas of expertise and proposed Committee appointments.

On-going development opportunities for all Directors are 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.

The Board also receive regular reports on shareholder sentiment following investor roadshows and conferences. Non-Executive Directors are invited to attend shareholder meetings and analyst presentations.

Information and support

All of the Non-Executive Directors have received presentations during the year on various aspects of the Group's activities. In addition, training has been provided by external advisors on topics such as the markets (e.g. Brexit scenarios) and regulatory environments (e.g. UK Governance updates, taxation legislation) in which the Group operates.

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.

Directors receive papers and other relevant information on the business to be conducted at each Board or Committee in advance. Directors also have direct access to senior management if they require additional information on discussion items.

Evaluation

SDL engaged the services of Lintstock to assist with the 2018 Review of Board performance, which this year included individual Director interviews and observation of the Board meeting held in London on 24 January 2019. Lintstock is a corporate governance advisory firm that specialises in facilitating Board Reviews.

The first stage of the Review involved Lintstock engaging with the Chairman to set the context for the evaluation and to tailor survey content to the specific circumstances of SDL. All Board members were then invited to complete an online survey addressing the performance of the Board, the Committees and the Chairman.

The second stage of the process involved Director interviews with two Lintstock representatives to expand upon the responses to the survey stage. The anonymity of the respondents was ensured throughout the process in order to promote an open and frank exchange of views. The exercise was weighted to ensure that core areas of Board and Committee performance were addressed, as well as having a particular focus on the following areas:

- The size and diversity of the Board, and the appropriateness of its composition, as well as succession for the Non-Executive Directors and the Chair
- The Board's engagement with key stakeholders, including investors, customers and employees, and its effectiveness in monitoring the culture and behaviours throughout the organisation
- The management of Board meetings, including the level of attendance of non-Board participants
- The quality of the investment proposals presented by management to the Board, and the effectiveness with which the Board reviews past decisions and captures any lessons or actions required
- The overall role played by the Board in relation to the acquisition of Donnelley Language Solutions, and the quality of the internal and external support provided to the Board in this area
- The Board's effectiveness in testing and developing strategy, and its understanding of the organisation's capacity to deliver the strategy, as well as the top strategic issues facing SDL over the three-five year period
- The Board's focus on and oversight of risk
- The Board's oversight of succession plans for top management and the Company's processes for managing and developing talent.

Output from the evaluation will be incorporated into 2019's planning and will be kept under review.

Election of Directors

In accordance with best practice and the UK Corporate Governance Code, all Directors will submit themselves for re-election at the forthcoming AGM.

Governance continued

Relationships with shareholders

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.

The Directors and Committee Chairs are available for questions at the Annual General Meeting which is held in London during business hours and provides an opportunity for Directors to report to investors on the Group's activities, to answer their questions and receive their views.

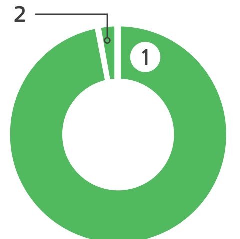
At all general meetings shareholders have an opportunity to vote separately on each resolution and all proxy votes lodged are counted and the balances for, against and directed to be withheld in respect of each resolution are announced.

The Chairman, the Remuneration Committee Chairman and the SID hold meetings, generally in February / March, with leading shareholders to discuss remuneration policies and other corporate governance matters and the comments received are reported to the Board and considered by the Remuneration Committee in determining or varying the Group's approach to executive compensation.

Annual General Meeting

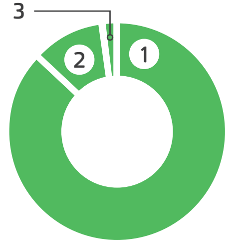
The 2018 AGM was held on Thursday 26 April 2018. All Directors attended and were available to answer questions. Voting on all resolutions was by poll, allowing shareholders to vote by proxy if they could not attend. The results of voting were published on our website at www.sdl.com.

The 2019 AGM will be held on Tuesday 7 May 2019 at 9:30am at DLA Piper's offices in London. Full details are included in the Notice of Meeting.



Shareholders by type

1	Institutional	97%
2	Private	3%



Shareholders by geography

1	UK	87%
2	North America	11%
3	Europe (excluding UK)	2%

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 representing over 56% of our issued share capital
- investor roadshows and Capital Market days 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
- 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

Audit Committee Report

Mandy Gradden
Audit Committee Chairman

MEMBERS

Glenn Collinson

Christopher Humphrey

Alan McWalter

Dear Shareholder

As a Committee, our responsibility is to ensure that financial information published by the Group properly presents its activities to stakeholders in a way that is useful and understandable, as well as overseeing the effective delivery of both external and internal audit services. The Committee operates on the basis of open and challenging dialogue with management and external auditors.

I'd also like to take this opportunity to welcome Xenia Walters, our new CFO, onto the Board.

Mandy Gradden
Audit Committee Chairman
20 March 2019

ATTENDENCE TABLE

	Number of scheduled meetings eligible to attend	Meetings attended
Mandy Gradden	5	5
Glenn Collinson	5	5
Christopher Humphrey	5	5
Alan McWalter	5	5

During the year, the Committee met five times and full details of matters discussed are covered later in this report

AREAS OF FOCUS

This includes an annual calendar of standing items such as:

- The review of the annual and half-yearly financial statements to ensure these properly present the Group's activities in accordance with accounting standards, law, regulations and market practice;
- Annual review of internal controls, including for 2018 an update of the Group's IT general controls and information security risks; and
- Compliance activities in the Group, including data privacy, and the Group's whistle-blowing arrangements.

Plus, in addition to the above, particular areas on which the Committee wished to focus:

- Overseeing the integration of the Donnelley Language Solutions, acquired in July 2018;
- The Group's implementation of IFRS 15 and capitalisation of R&D costs;
- The Group's transfer pricing arrangements and any risks associated with related party transactions; and
- Reviewing whether the internal audit function provision is suitably equipped for the new enlarged Group as the business evolves and best practice develops.

Governance: Audit Committee Report continued

Composition and governance

The Audit Committee is comprised of four Non-Executive Directors all of whom are considered independent. Both Mandy Gradden and Christopher Humphrey are Chartered Accountants. Mandy Gradden currently serves as Chief Financial Officer of Ascential plc. The Board considers both Mandy Gradden 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 Committee members have significant current executive experience in various industries. This range and depth of financial and commercial experience enables them to deal effectively with the matters they are required to address and to challenge management when necessary.

The Company Secretary is secretary to the Committee.

The Board evaluates the membership of the Committee on an annual basis.

Only the members of the Committee have the right to attend Committee meetings, however the Chief Financial Officer, Chairman, Chief Executive Officer, senior representatives of the external auditor KPMG, other external advisors and other senior management attend meetings by invitation. 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 Chairman of the Committee reports to the Board and meets with the external auditor, without executive management present to discuss matters relating to its remit and any issues relating to the audit. Mandy Gradden also meets 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.

The Audit Committee meets the external auditor at least once a year, without management, to discuss matters relating to its remit and any issues arising from the audits. The Audit Committee Chairman, together with the other members of the Audit Committee regularly meet with the key people involved in the Company's governance, including the Chairman, the CEO, the CFO and KPMG audit lead partner.

The Committee undertakes its duties in accordance with its terms of reference which were reviewed in January 2019 to ensure that they remained fit for purpose and in line with best practice guidelines. The terms of reference are available on the Company's website.

As part of the formal annual Board evaluation, the Committee's effectiveness was subject to review.

The Committee met five times during the year ended 31 December 2018: four Audit Committee meetings and one Technical Audit meeting. Since the end of the year, the Committee has met twice (11 and 18 March 2019) and all members attended.

Audit Committee meetings and key activities

1 March 2018

KEY AGENDA ITEMS

- 2017 annual results
  - Significant accounting issues, key judgments and estimates, viability statement
  - External auditor's report
  - Review of preliminary results and draft announcement
- Reviewed the draft 2017 Annual Report and preliminary announcement
- Received the report from the internal audit function and considered external resourcing
- Private meeting with the external auditor, KPMG

25 July 2018

KEY AGENDA ITEMS

- Half year results
  - Detailed review of significant accounting issues, including new reporting segments, R&D treatment, tax, and impact of new standards
- Received the draft KPMG report for the 2018 half year
- Reviewed the draft interim announcement

31 July 2018

KEY AGENDA ITEMS

- Approval of half year results for 2018
  - Significant accounting issues, key judgments and estimates, viability statement, with updates from the technical meeting as appropriate
  - External auditor's report
  - Review of preliminary results and draft announcement
- Received the Tax Reputation paper
- Review of findings from internal audit site visits and approval of 2019 audit plan
- Private meeting with the external auditor, KPMG

24 September 2018

KEY AGENDA ITEMS

- Received an update on how the Group manages technology risks
- Received and discussed the latest version of the Risk Register
- Received and discussed a paper on Payment Practices reporting
- KPMG Audit Strategy for the year ending 31 December 2018
- Review effectiveness of external audit

22 November 2018

KEY AGENDA ITEMS

- Received and discussed Cash and Treasury report
- Received foreign exchange update
- Received update on Global Compliance Tool and whistle-blowing platform
- Received update on R&D capitalisation
- Discussed the annual review of internal controls
- Review of internal audit structure / approach
- External advisor presented findings of their review of the Tax Operating Model
- Reviewed findings of Brexit scenarios and workshops and discussed associated risks

11 March 2019

KEY AGENDA ITEMS

- 2018 annual results
  - Detailed review of significant accounting issues, including new reporting segments, R&D treatment, tax, and impact of new standards
- Received the draft KPMG report for 2018
- Reviewed the draft announcement

18 March 2019

KEY AGENDA ITEMS

- 2018 annual results
  - Significant accounting issues, key judgments and estimates, viability statement
  - External auditor's report
  - Review preliminary results and draft announcement
- Draft Annual Report
- Risk Register review

Governance: Audit Committee Report continued

Outside of the formal meetings, the Chairman meets regularly with the external auditor, the Chief Financial Officer and other senior management.

Significant judgements

The significant judgements considered by the Committee in relation to the 2018 accounts were:

Business combinations

The Committee reviewed the application of IFRS 3 to the DLS acquisition which was deemed to be a business combination within scope and considered:

- The recording of fair value adjustments and;
- The identification and valuation of acquired intangibles.

Valuations of the acquired intangible assets were performed by an external valuation expert. Management determined this to be appropriate due to the size and complexity of this acquisition.

Valuation and accounting papers prepared by management and the external expert were reviewed and considered appropriate by the Committee. This included consideration of the following:

- Cash flows and discount rates used in business valuations;
- Models and key inputs used in intangible asset valuations including expected useful lives;
- Fair value adjustments made by management to arrive at the fair values of the assets and liabilities acquired;
- The approach taken to identify intangibles.

Carrying value of goodwill

The Committee reviewed management's process for testing goodwill for potential impairment and ensuring appropriate sensitivity disclosure. This included challenging the key assumptions: revenue growth rates, forecasting accuracy, cash flow projections and discount rates. The Group has not recognised any goodwill impairment in the current and prior year. See notes 13 and 15 to the financial statements for further information.

This calculation is subjective, and requires the use of judgement, primarily in respect of:

- Forecast cash flows, particularly in relation to future revenues and market conditions; and
- Discount rates.

Technology revenue recognition

2018 was the first year of reporting under IFRS 15. The Committee discussed and challenged management's reports, satisfying itself that a consistent approach had been applied to determine revenue recognised in 2018.

The Committee monitored the application of the Group's revenue recognition policy, updated for the new standard IFRS15. The policy recognises different categories of revenue: Services, Licence and Professional Services and details are set out in note 2. The Committee also received reports from the external auditor on its findings where accounting for sales arrangements is complex.

Capitalisation of development costs

Product development costs are capitalised once a project has reached a certain stage of development and these costs are subsequently amortised over a three-year period. Due to the size of the capitalised balance and the judgements required in calculating the capitalisable cost, this has been included as a significant judgement for 2018.

The Committee has considered the underlying policies and procedures in place across the group and has challenged management about the controls in place required to assess whether the new product development has reached the appropriate point for capitalisation of costs to begin. More details are set out in note 15 to the accounts.

Internal control and risk management

Whilst the Audit Committee has delegated authority for internal control and risk, the Board is ultimately responsible for risk management and internal control. The Board has established the level of risk that is appropriate for the business and acceptable in the pursuit of the strategic objectives and has therefore set appropriate policies. It has also set delegated authority levels to provide the framework for assessing risks and ensuring that they are escalated to the appropriate levels of management, including up to the Board where appropriate, for consideration and approval. This process ensures that risks are not just the product of a bottom-up approach but are also examined from a top-down perspective via an integrated senior management process, which is closely aligned with the Group's strategy, in order to enhance the Group's approach to risk generally.

Internal control and risk-related reviews carried out by the Committee during the year included:

- A robust assessment, externally led, of the Group's tax operating model. The Group also reviewed the transfer pricing arrangements it applies to related party transactions, being an area of taxation on which many multinational businesses are commonly challenged by tax authorities. The Group has sought professional advice and has considered the potential transfer pricing risks of the transactions. As a result of the review, it has been concluded that some adjustments are likely to be required to the transfer pricing arrangements applied historically. The Group has entered into discussions with tax authorities in relation to this matter.

- Reviewed the output from the Group's risk review process to identify, evaluate and mitigate risks and considered whether changes in risk profile were complete and adequately addressed.
- Monitored the effectiveness of the Group's internal controls and fraud risk.
- Reviewed and agreed the content of the viability statement (page 66) and the process undertaken, including an assessment of the stress testing performed, in order to approve both it and the going concern statement (page 110).
- Implementation of measures in response to the General Data Protection Regulation.
- Consideration of the risks related to Brexit.
- Continuing evaluation of systems in place for protection against cyber security threats.
- Received updates on the compliance tool implementation to enhance due diligence monitoring.
- Received updates on the implementation of the external whistle-blowing platform.

Internal audit

The Group currently operates a system of peer review for its internal audit whereby finance executives perform independent audits on their peers in other areas of the Group. The Committee currently considers this to be appropriate for the size of the Group. In addition, country financial controllers, are obliged to self-certify on a quarterly basis that the agreed procedures are in place and are being adhered to, with specific reference to key controls such as bank and control account reconciliations. Internal audit visits also review the accuracy of these self-certifications. The Committee considers and evaluates the level of resource, skills and experience to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

Principal activities during the year:

- evaluated the scope of work to be undertaken by the internal audit function and monitored progress at subsequent updates;
- reviewed progress on recommendations brought forward and considered recommendations arising during the year;
- considered the resource levels available to the internal audit function; and
- reviewed the effectiveness of the internal audit process through discussion with the Group Finance Director, CFO, CEO, external auditor and members of the Audit Committee.

In 2019 the Committee concluded that the Group would be best served by supplementing the internal audit function with an external provider. This recommendation was accepted by the Board and a tender process will take place in 2019 to select the most appropriate partner.

External auditor and independence

KPMG were appointed as SDL's external auditor in 2010. The current audit partner is Simon Haydn-Jones who has been in the role since 2014.

The Committee reviews and makes a recommendation to the Board with regard to the re-appointment of the external auditor. In making this recommendation, the Committee considers KPMG's effectiveness, independence, objectivity and scepticism on an ongoing basis during the year, through its own observations and interactions with the external auditor. The Audit Committee meet the external auditor both formally and informally throughout the year to discuss, amongst other things, materiality, audit strategy and audit findings.

In order to safeguard the independence and objectivity of the external auditor, the Committee reviews the nature and extent of the non-audit services supplied, receiving reports on the balance of audit to non-audit fees. For 2018, the external auditor has provided £30,000 of non-audit work for other assurance related services (2017: £0.1m). Fees paid to KPMG are set out in note 5 to the financial statements.

The Committee has recommended to the Board the reappointment of KPMG as the Group's auditor for the year ending 31 December 2019 at the 2019 AGM. As a public interest entity, SDL is required to conduct a tender for audit services at least every 10 years and rotate auditors after 20 years. KPMG has been the Group's auditor for nine years and the Board will tender the Group's audit for the year ending 31 December 2020.

Nomination Committee Report

Alan McWalter
Nomination Committee Chairman

MEMBERS

David Clayton

Glenn Collinson

Christopher Humphrey

Dear Shareholder

The Committee held two scheduled meetings in 2018, which were attended by all members. The agendas focused on succession planning, talent management and corporate governance.

Our aim is for the Board to consist of individuals with diverse skills and experience that can add value to our Board work and debates. We also recognise that diversity of gender, age, ethnicity, industry knowledge and education are important. Female representation on the Board is currently at 29%. Whilst the Board continues to believe that it is not appropriate to set out any specific targets that may require positive discrimination for the appointment of women to the Board, it supports the aspiration on gender diversity in the Hampton Alexander review and the Committee considers gender diversity when making appointment recommendations. We ensure that workplace diversity of all types are considered as part of any shortlist process drawn up by external search consultants.

Alan McWalter
Nomination Committee Chairman
20 March 2019

ATTENDENCE TABLE

	Number of scheduled meetings eligible to attend	Meetings attended
Alan McWalter	2	2
David Clayton	2	2
Glenn Collinson	2	2
Christopher Humphrey	2	2

Nomination Committee responsibilities

AREAS OF FOCUS

The responsibilities of the Nomination Committee include:

- review of the structure, size and composition (including skills, knowledge, experience, and diversity) of the Board and its Committees and making recommendations to the Board regarding any changes;
- identification and nomination of candidates for appointment to the Board;
- review succession over the longer term for Directors and senior management;
- keeping under review the time commitment expected from the Chairman and Non-Executive Directors; and
- ensuring an effectiveness review is conducted annually of the Board, its Committees and Directors.

The Committee's terms of reference are available at **www.sdl.com**

Nomination Committee activities during 2018

The Committee met twice during the year with the main issue considered and recommended to the Board being the appointment of Xenia Walters as CFO with effect from 3 April 2018, having previously served as Interim CFO. This followed the decision by Dominic Lavelle that he wished to step down as CFO. The Committee and the Board were unanimous in recommending her as the outstanding candidate for the role of CFO.

The Committee also noted that David Clayton will have served as Chairman of SDL plc for nine years at the end of 2018. Alan McWalter reported that, from his survey of members of the Board, there was unanimous support for David Clayton to remain in position. Amongst the reasons given were stability of leadership, continuity of management and the productive relationship between Chairman and CEO.

Having consulted with major shareholders, David Clayton will remain in office until the 2020 AGM. The situation will be kept under review throughout 2019.

During the year, the Committee also considered independent Non-Executive Director succession planning and this will continue to be a focus during 2019.

The Committee also reviewed and discussed:

- succession planning for Executive Directors, and Executive management;
- the results of the annual performance evaluation of the Committee; and
- the Committee's terms of reference.

Board appointments process

The Committee first evaluates the balance of skills, knowledge, experience and diversity on the Board. The Committee agrees a role specification for Board appointments and if the position is not to be fulfilled internally, appoints recruitment consultants to produce a long-list of diverse candidates for the Committee's consideration. Following this, the Committee will consider candidates on merit and against objective criteria, with due regard for the benefits of diversity on the Board.

Where the Committee appoints external advisers to facilitate the search, it ensures that the firm selected has signed up to the relevant industry codes (for example, on diversity) and has no connection with the Company.

Directors' Remuneration Report

Glenn Collinson

Remuneration Committee Chairman

MEMBERS

David Clayton

Glenn Collinson

Christopher Humphrey

This report covers the activities of the Remuneration Committee for the year ended 31 December 2018 and sets out the Remuneration Policy and remuneration details for Executive and Non-Executive Directors.

Three years after the current Remuneration Policy was approved by shareholders and following a thorough review, the Committee will be proposing a new Remuneration Policy for the next three years at the 2019 Annual General Meeting. The revised Policy has been subject to consultation with major investors and the main shareholder representatives.

Annual Statement

Dear Shareholder,

I am pleased to present, on behalf of the Board, the Directors' Remuneration Report for the year ended 31 December 2018. This report is comprised of three parts, namely:

- This Annual Statement, which summarises SDL's performance and the resulting remuneration for the Executive and Non-Executive Directors for the year just ended, our approach to remuneration going forwards, our approach to last year's AGM voting and our communications with shareholders over the last year and our 2018 Gender Pay results;
- The Remuneration Policy Report, which provides a summary of the Remuneration Policy for which shareholder approval was originally obtained at the AGM on 28 April 2016 (which received 99.9% approval) and which will need to be resubmitted for shareholder approval at the 2019 AGM. No material changes are being proposed; and
- The Annual Report on Remuneration, which sets out payments and awards made to the Directors and details the link between Company performance and remuneration for 2018 and how the new Policy will be operated for 2019.

Accordingly, at our 2019 AGM there will be two remuneration-related resolutions presented: (i) the normal annual advisory vote on our Directors' Remuneration Report; and (ii) the vote to approve our new Directors' Remuneration Policy, which will apply to all payments to be made to Directors from the 2019 AGM and which (unless altered with shareholders' approval) will apply for a period of three years.

Work of the Committee during 2018

The Committee met seven times during 2018 and details of attendance at Committee meetings are set out on page 77. The Committee's main activities during the year (full details of which are set out in the relevant sections of this report) included:

- Agreeing the performance against the targets for the 2017 annual bonus awards;
- Setting the targets for the 2018 annual bonus;
- Agreeing the performance against the targets for the 2016 LTIP awards and determining vesting levels;
- Agreeing the award levels and performance targets for the 2018 LTIP awards;
- Considering investor feedback in respect of the 2018 AGM;
- Agreeing the arrangements in relation to Dominic Lavelle's departure;
- Agreeing the Chairman's fee and Executive Directors' base salary increases from 1 April 2019;
- Reviewing and agreeing the changes to the Remuneration Policy in advance of the 2019 AGM; and
- Consulting on the policy changes with major investors and representative bodies.

The Committee is satisfied that the Remuneration Policy operated as intended in terms of Group performance and quantum (see below). No engagement with the workforce in respect of executive remuneration took place during the year and no discretion has been applied in respect of remuneration outcomes.

Performance and remuneration for 2018

Summary of 2018 performance

SDL has performed well during 2018, in respect of both the financial and strategic progress made. This has included the roll-out of our business automation platform, investment in our technology platforms and the acquisition of DLS.

Executive Directors' 2018 annual bonus

SDL's annual bonus rewards achievement of Group and strategic targets, for performance delivered in line with the Company's risk framework. The Committee scrutinises performance targets, to ensure they are sufficiently challenging. Stretching performance ranges are then agreed at the start of the performance period. Annual bonus outcomes for 2018 have been determined based on revenue (37.5% weighting), adjusted operating profit (37.5%) and strategic targets (25%). The financial targets were amended mid-year as a result of the acquisition of DLS in July 2018, in line with Committee's judgement of the expected performance of this business during the remainder of 2018. Against these toughened financial targets, the Company delivered a revenue of £323.3m (between target and maximum) and an adjusted operating profit of £29.0m (above maximum). This was a strong performance in a challenging transformation environment and was delivered against a background of increasing competition and pricing pressures.

The Committee also reviewed the performance of the Executive Directors against their strategic targets and determined that when combined with performance against the financial targets, 76% of the maximum bonus opportunity should be awarded to both Adolfo Hernandez and Xenia Walters. In line with the normal deferral policy, any bonus above 100% of salary will be deferred into SDL shares for two years. Full details of the measures, targets and bonus outcomes are set out in the Annual Report on Remuneration.

Executive Directors' long-term incentives vesting based on performance to 2018

The award due to vest in June 2019 is the first award in which Adolfo Hernandez, CEO, participated. The performance period ran to the end of the 2018 financial year. Performance was measured against two metrics, 50% based on SDL's adjusted EPS performance and 50% based on relative TSR performance. Based on SDL's below threshold adjusted EPS (0% of this part of awards vest) and TSR performance (45.7% of this part of awards vest), 22.85% of the awards are expected to vest in June 2019.

Policy changes

The Committee is not proposing to make material changes to the Remuneration Policy, originally approved by 99.9% of shareholders at the 2016 AGM. As such, it is proposed that the current Policy be rolled forward at the 2019 AGM with the only change of note being the commitment to appoint any new executive Board Directors on a pension contribution that is aligned to the pension contributions provided to the majority of the workforce.

Implementation of policy in 2019

Executive Directors' salary

In response to shareholder feedback last year surrounding Adolfo Hernandez's inflationary base salary increase, no salary increase will be awarded to the CEO from 1 April 2019 (his salary will remain at £514,000). Xenia Walters' salary increase, effective 1 April 2019, will be aligned to the average salary increase for employees across the UK workforce of 2.4% although the Committee will keep her salary under review as her experience in the CFO role continues to grow.

Executive Directors' annual bonus

The maximum annual bonus for 2019 will continue to be 150% of salary for Adolfo Hernandez and 112.5% of salary for Xenia Walters. The financial performance measures used will continue to be based on the achievement of targeted levels of revenue and adjusted operating profit. Financial measures will continue to determine the majority of the bonus potential with a minority continuing to be based on strategic targets.

Executive Directors' long-term incentives

No change is being proposed to Adolfo Hernandez's 2019 LTIP award level (i.e. 250% of salary). The LTIP award level for Xenia Walters for 2019 and future awards will be increased from 100% to 125% of salary to reflect her growing experience and performance in the role (firstly as interim and then permanent CFO). This award level aligns with the previous CFO's LTIP award level. Xenia Walters' salary and bonus potential remain considerably lower than those of the previous incumbent, although the committee envisages that performance based increases could be made in future years to align with a competitive package when compared to CFOs in comparable companies with comparable skills and experience. Performance in respect of LTIP awards will continue to be based on relative TSR targets and adjusted EPS targets, weighted equally. However, in respect of the performance targets for the 2019 awards:

- The relative TSR performance condition will be toughened. Rather than full vesting of this part of an award for upper quartile performance, upper quintile performance will be required for 2019 and future awards for maximum vesting. Going forward therefore, 25% of this part of an award will vest at median performance increasing pro rata to 100% of this part of an award vesting at upper quintile performance. We will continue to use the constituents of the FTSE SmallCap (excluding investment trusts) given the absence of a sufficient number of peer group companies; and

Governance: Directors' Remuneration Report continued

– Major shareholders and representative bodies were consulted on the adjusted EPS targets which have been set at a threshold of 33p in 2021 whereby 25% of this part of an award vests rising on a straight line basis with full vesting for achievement of a stretch target of 45p in 2021. In setting this target range, which the Committee considers to be appropriately challenging, the Committee considered both internal and external forecasts to ensure the targets are appropriately stretching.

A two-year holding period will continue to apply to vested LTIP awards and robust recovery and withholding provisions operate.

Board changes

In April 2018 Xenia Walters, previously Interim CFO, joined the Board as CFO, taking over from Dominic Lavelle who was on a leave of absence and who stepped down from the Board on 29 March 2019. Her remuneration package, both in terms of fixed pay and incentive levels, was set at a level below that of Dominic Lavelle's to reflect market data, shareholder concerns around pay quantum and her Board level experience at that time.

Shareholder voting and engagement

At our 2018 AGM, 27.92% of the shares voted were not in favour of the resolution on the Annual Report on Remuneration. Following discussions with major shareholders and a review of the reports produced by the major shareholder representatives, it was clear that the concerns centred on an inflationary salary increase awarded to the CEO, the retrospective disclosure of the 2017 annual bonus targets and the degree of stretch in the 2018 LTIP adjusted EPS targets.

On the basis that the shareholder approved Remuneration Policy has reached the end of its three-year approved term, the Committee has considered the votes against and feedback from shareholders received in respect of seeking shareholder approval for a new Policy and implementing that Policy for 2019. In respect of a new Remuneration Policy, major shareholders and representative bodies have been consulted on the Committee's proposal to roll forward the existing Policy without significant changes at the 2019 AGM. In respect of the implementation of the Policy for 2019, the Remuneration Committee has agreed to: (i) freeze Adolfo Hernandez's base salary at 1 April 2018 levels (i.e. no increase from 1 April 2019); (ii) significantly enhance the retrospective annual bonus disclosures in respect of the 2018 bonus; (iii) toughen the 2019 LTIP TSR performance target; and (iv) continue to ensure that the 2019 LTIP adjusted EPS target range is appropriately challenging and disclosed in this Remuneration Report.

While the Committee has now concluded the consultation exercise in respect of the 2019 Policy and how it will be implemented, it welcomes all input on our remuneration policies and if you have any comments or questions on any element of the report, please email our Company Secretary, Pamela Pickering at ppickering@sdl.com.

Gender pay gap

At SDL, we believe equal opportunities in all aspects of employment and development. We continually monitor our pipeline of talent, with a focus on growing and developing everyone, and this is reflected in our salary framework, where an individual pay is based on their skills, experience and performance, rather than any other factors including gender. This ensures everyone is treated fairly and we build an equitable workforce.

Additionally, in 2018 we saw the mean gender pay gap close by 5.5 percentage points, and the mean bonus gender pay gap reduced by 45 percentage points. In the 2018 Annual Talent Review and Succession Management practice 69 employees were reviewed of which 33 (48%) were females. Of the total 69 reviewed, 39 employees were identified as top talents and of the 39 top talents, 20 (51%), were females. Today, across the SDL Group we employ close to equal numbers of men and women, with slightly more women (52%). Four of our eleven Executive management members are women and nearly half (49%) of the 64 senior executives at the next level are women.

Finally, I would like to thank our shareholders for their support on which I hope we can continue to rely at our AGM on 7 May 2019.

Glenn Collinson
Remuneration Committee Chairman
20 March 2019

Remuneration Policy Report

Policy scope

The Policy applies to the Chairman, Executive Directors and Non-Executive Directors.

Policy duration

The new Directors' Remuneration Policy Report will be put to a binding shareholder vote at the AGM on 7 May 2019 and, subject to receiving majority shareholder support, the Policy will apply from the date of approval for a maximum of three years.

Changes from 2016 Remuneration Policy

The Committee is not proposing to make material changes to the Remuneration Policy, originally approved by 99.9% of shareholders at the 2016 AGM. As such, it is proposed that the current Policy be rolled forward at the 2019 AGM with the only change of note being the commitment to appoint any new executive Board Directors on a pension contribution that is aligned to the pension contributions provided to the majority of the workforce.

To aid the administration and clarity of its operation, a number of minor changes have been made to the wording of the Remuneration Policy where appropriate.

Any commitments made by the Company prior to the approval and implementation of the new Policy which were consistent with the policy in force at the time, will be honoured, even if they would not be consistent with the Policy prevailing when the commitment is fulfilled.

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.

Proposed 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.

Governance: Remuneration Policy Report continued

Policy table

The table below provides a full summary of the Policy elements for the Company's Directors.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION
Base salary	Essential to recruit and retain Executives of a high calibre. Reflects an individual's experience, role and performance.	Salaries are paid monthly. They are reviewed annually and normally fixed for 12 months commencing 1 April. In deciding appropriate levels, the Committee takes into account: – the role, experience, responsibility and performance (individual and Group); – increases applied to the broader workforce; and – relevant market information for similar roles in broadly similar UK listed companies and companies of a similar size. 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). 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: – Car or car allowance – Private medical insurance – Life assurance – Income protection Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees. 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. 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.

MAXIMUM	PERFORMANCE
There is no prescribed maximum. 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): – where an individual is promoted or has been recruited on a below market rate; or – 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.

MAXIMUM	PERFORMANCE
There is no prescribed maximum as costs may vary in accordance with market conditions. HMRC tax-approved limits will apply to all employee share schemes.	Not applicable.

MAXIMUM	PERFORMANCE
12% of salary p.a. (although new Executive Board appointees will have their pension contributions set in line with the pension contributions provided to the majority of the workforce).	Not applicable.

Governance: Remuneration Policy Report continued

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION
Annual bonus	To motivate Executives and incentivise the achievement of annual financial and/or strategic business targets. To ensure further alignment with shareholders through the retention of deferred equity.	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. 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. 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. Bonus payments, including deferred bonus awards, are subject to recovery and withholding provisions in the event of financial misstatement, error or gross misconduct. Participation in the bonus plan, and all bonus payments, are at the discretion of the Committee.

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. Provides long-term retention. 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. 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. Awards normally vest after three years subject to the achievement of stretching performance conditions and continued employment. Awards are subject to recovery and withholding provisions in the event of financial misstatement, error or gross misconduct. A holding period will apply under which all participants are required to retain their net of tax vested awards for two years post vesting. 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.

MAXIMUM

The maximum award under the annual bonus scheme is 150% of salary.

PERFORMANCE

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.

Financial measures will represent the majority of bonus, with clearly defined non-financial targets representing the balance.

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.

- Nothing is payable for performance below a minimum level of performance.
- Up to 25% of this part of the bonus is payable for meeting a demanding threshold target with maximum bonus payable for achieving a more demanding target.
- 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.

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.

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.

MAXIMUM

The maximum annual award that can be made in any given financial year is 250% of salary for the CEO and 150% of salary for other Executive Directors.

PERFORMANCE

A combination of financial performance (amongst adjusted EPS growth, EBITDA to cash conversion, cash flow, return on invested capital or any other of the Company's KPIs which may change during the policy window) and/or relative TSR 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.

The use of TSR aligns with the Company's focus on shareholder value creation and rewards management for share price outperformance. 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.

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.

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.

Performance periods will normally start from the beginning of the financial year in which the award is made.

Governance: Remuneration Policy Report continued

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION
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. The Chairman and Non-Executive Directors shall be entitled to have reimbursed all expenses they reasonably incurred in the performance of their duties, including those expenses deemed to be taxable benefits by HMRC (or equivalent body). This includes any personal tax that may become due on those expenses. The level of Non-Executive Directors' fees 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. In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.

ELEMENT	PURPOSE AND LINK TO STRATEGY	OPERATION
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 later of appointment date or approval date of this policy.

MAXIMUM	PERFORMANCE
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.

MAXIMUM	PERFORMANCE
Not applicable.	Not applicable.

Notes to the Policy table

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 considers 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.

Governance: Remuneration Policy Report continued

Bonus 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):

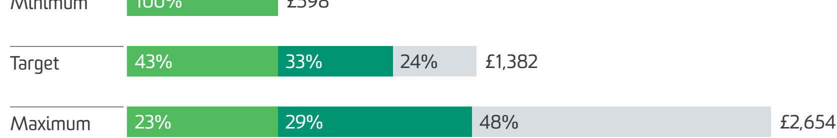
- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) 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

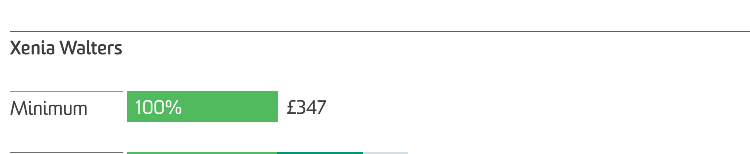
The Company's policy results in a significant portion of remuneration received by Executive Directors being dependent on Company performance. The graph below illustrates how the total pay opportunities for the Executive Directors for 2019 vary under three performance scenarios: minimum, target, and maximum.

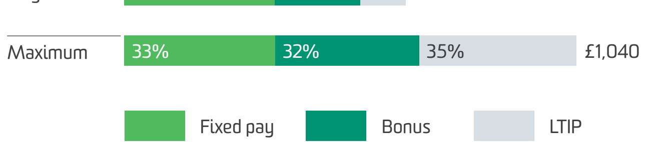
TOTAL REMUNERATION OPPORTUNITY (£000s)

Adolfo Hernandez



Xenia Walters





Fixed pay | Bonus | LTIP

ASSUMPTIONS

Minimum
- Comprises fixed pay of 2019 basic salary, an estimated benefits value and a 12% pension contribution/salary supplement

Target
- Fixed pay as set out above
- Assumes 60% of the maximum bonus payouts
- Assumes 25% of the LTIP vests

Maximum
- Fixed pay as set out above
- Assumes maximum payout of bonus of 150% of salary for CEO and 112.5% of salary for CFO together with full LTIP vesting (250% of salary for Adolfo Hernandez and 125% of salary for Xenia Walters)

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 in line with the pension contributions provided to the majority of the workforce may be offered.

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 prorated 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.

In accordance with the terms of the UK Corporate Governance Code all Directors submit themselves for re-election at the AGM each year.

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 or her 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.

Governance: Remuneration Policy Report continued

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/her employing company ceasing to be a Group Company or the undertaking business or division for which he or she works being sold out of the Company's Group, or any other circumstances at the discretion of the Committee.

Under the Deferred Share Bonus Plan, if treated as a good leaver, awards will normally vest on the original vesting date and will not 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 shareholders 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 and payments 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/her duties for the Company.

Governance continued

Annual Report on Remuneration

This Annual Report on Remuneration (together with the Remuneration Committee Chairman's Annual Statement) will be put to a single advisory shareholder vote at the 2019 AGM.

The information below includes details of how we intend to operate our policy in 2019 and the pay outcomes in respect of the 2018 financial year.

Implementation of Remuneration Policy in 2018

Salaries

In response to shareholder feedback last year surrounding Adolfo Hernandez's inflationary base salary increase, no salary increase will be awarded to him from 1 April 2019 (his salary will remain at £514,000). Xenia Walters' salary was increased by 2.4% to £291,840, effective 1 April 2019, in line with the average SDL UK workforce increase although the Committee will keep the CFO's salary under review as her experience in the role increases.

Pension and benefits

Adolfo Hernandez and Xenia Walters will continue to receive a Company pension contribution of 12% of basic salary. Benefits will be provided in line with the approved Remuneration Policy.

Annual bonus

The maximum bonus opportunity for 2019 will continue to be capped at 150% of base salary for Adolfo Hernandez and 112.5% of base salary for Xenia Walters. Any bonus payable in excess of 100% of salary will be deferred in shares which will vest after two years, subject to continued employment. The metrics and their weightings for the year ending 31 December 2019 are:

	Adolfo Herandez % of salary	Xenia Walters % of salary
Adjusted profit before tax, before amortisation of acquired intangibles and exceptional items	62.5	46.875
Revenue	62.5	46.875
Strategic targets	25.0	18.75
Maximum bonus opportunity	**150**	**112.5**

The weightings of the different metrics for the CEO and CFO are unchanged versus 2018. No bonus will become payable if profit before tax, amortisation of acquired intangibles and exceptional items is below a profit threshold. 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

No change is being proposed to Adolfo Hernandez's 2019 LTIP award level (i.e. 250% of salary). The LTIP award level for Xenia Walters for 2019 and future awards will be increased from 100% to 125% of salary to reflect her growing experience and performance in the role (firstly as interim and then permanent CFO). This award level aligns with the previous CFO's LTIP award level. Xenia Walters' salary and bonus potential remain considerably lower than those of the previous incumbent, although the committee envisages that performance based increases could be made in future years to align with a competitive package when compared to CFOs in comparable companies with comparable skills and experience. Performance in respect of LTIP awards will continue to be based on relative TSR targets and adjusted EPS targets, weighted equally. However, in respect of the performance targets for the 2019 awards:

- The relative TSR performance condition will be toughened. Rather than full vesting of this part of an award for upper quartile performance, upper quintile performance will be required for 2019 and future awards for maximum vesting. Going forward therefore, 25% of this part of an award will vest at median performance increasing pro rata to 100% of this part of an award vesting at upper quintile performance. We will continue to use the constituents of the FTSE SmallCap (excluding investment trusts) in the absence of a sufficient number of peer group companies; and

Governance: Annual Report on Remuneration continued

– Challenging three-year adjusted EPS targets have been set. 25% of this part of an award will vest for a 2021 adjusted EPS of 33p increasing pro rata to 100% of this part of an award vesting for a 2021 adjusted EPS of 45p. The Committee believes the above range is appropriately stretching in light of internal and external forecasts.

To the extent they vest, awards held by Executive Directors will be subject to a post-vesting holding period of two years.

Non-Executive Director fees

The fees for the Chairman and Non-Executive Directors will be as follows:

Chairman	£110,000
Basic fee for other Non-Executive Directors	£50,000
Supplementary fee for chairing the Audit Committee	£8,000
Supplementary fee for chairing the Remuneration Committee	£8,000
Supplementary fee for chairing the Nomination Committee	£5,000
Supplementary fee for performing the Senior Independent Director role	£3,000

Information in the table below is subject to audit

Single total remuneration figure for Directors

The following table presents a single total remuneration figure for 2018 (and 2017) for the Executive and Non-Executive Directors.

		Fixed pay			Pay for performance		
		Salary / fees £000s	Benefits [1] £000s	Pension [2] £000s	Annual bonus £000s	LTIP £000s	Total remuneration £000s
Chairman							
David Clayton	2018	110.0	–	–	–	–	110.0
	2017	110.0	–	–	–	–	110.0
Executive Directors							
Adolfo Hernandez	2018	510.5	21.5	61.3	577.2	327.0	1497.5
	2017	500.0	22.0	60.0	–	–	582.0
Dominic Lavelle	2018	31.0	3.1	3.7	–	93.4	131.2
	2017	233.0	13.0	28.0	–	–	274.0
Xenia Walters [3]	2018	213.8	9.4	25.7 [4]	181.9	–	430.8
	2018	152.0	–	–	–	–	152.0
	2017	231.0	–	–	–	–	231.0
Non–Executive Directors							
Mandy Gradden	2018	55.0	–	–	–	–	55.0
	2017	55.0	–	–	–	–	55.0
Alan McWalter	2018	58.0	–	–	–	–	58.0
	2017	58.0	–	–	–	–	58.0
Glenn Collinson	2018	58.0	–	–	–	–	58.0
	2017	58.0	–	–	–	–	58.0
Christopher Humphrey	2018	50.0	–	–	–	–	50.0
	2017	50.0	–	–	–	–	50.0

1 Taxable benefits for the year included: car allowance, private medical insurance and income protection.
2 2018 pension contributions were paid into the Group pension scheme.
3 Xenia Walters was paid on a contract basis from June 2017 to March 2018, a total of £383,000.
From April 2018 Xenia was employed on a PAYE basis and benefits accrued.
4 Pension allowance.

2018 annual bonus

Performance versus targets

The maximum annual bonus for Adolfo Hernandez and Xenia Walters for 2018 was 150% and 112.5 % of salary respectively albeit Xenia Walters' bonus was prorated from 1 April 2018 (the date she became a permanent employee). The annual bonus was based on a mix of Company financial performance targets, split between revenue achievement, profit before tax, amortisation of acquired intangibles and exceptionals (adjusted operating profit) achievement and strategic targets. Bonus payments were subject to an adjusted operating profit underpin of £17m which had to be achieved before any elements of bonus could be paid. The adjusted operating profit significantly exceeded this underpin. The financial targets were toughened mid-year as a result of the acquisition of DLS in July 2018, in line with Committee's judgement of the expected performance of this business during the remainder of 2018.

Details of performance versus each of the financial targets and strategic targets are provided in the tables below:

			Adolfo Hernandez			Xenia Walters		
	Weighting % of maximum	Reference	% of maximum	% of salary	£000s	% of maximum	% of prorated salary	£
Revenue	41.67	Table 1	48	29.8	151,886	48	22.6	48,333
Adjusted operating profit	41.67	Table 2	100	62.5	319,062	100	46.9	100,195
Strategic	16.67	Table 3	83	20.8	106,263	83	15.6	33,370
Total	100		76	113.1	577,212	76	85.1	181,899

Table 1: Revenue (41.67% of maximum potential)

Performance	2018 Revenue [1] targets £m	% of this part of the bonus payable on achieving that target	2018 Actual revenue £m	% of this part of the bonus actually paid (max 100%)
Threshold	310.8	8		
Target	327.2	60	323.3	48
Maximum	359.9	100		

Table 2: Adjusted operating profit (41.67% of maximum potential)

Performance	2018 Adjusted operating profit targets [1] £m	% of this part of the bonus payable on achieving that target	2018 Actual adjusted operating profit £m	% of this part of the bonus actually paid (max 100%)
Threshold	23.0	8		
Target	24.0	60	29.0	100
Maximum	27.6	100		

1 The targets used were adjusted upwards after the acquisition of DLS in July 2018: The revenue target was calibrated upwards by £28.4m and the adjusted operating profit target was increased by £1.0m.

Table 3: Strategic targets (up to 16.67% of maximum potential)

Targets for 2018	Weighting	Commentary	% of this part of the the bonus payable (out of 10% or 30%)	% of the maximum (out of 100%)
Grow ARR of Language and Content Technologies business by 10%	30% (CEO and CFO)	Based on a 4.4% growth rate of Annual Reported Contract Values in 2018 versus 2017 compared to the maximum 10% target (see KPIs on page 35 for details on ARCV growth), the Committee determined 44% of this target has been achieved for 2018, resulting in 13.3% out of a potential 30% being awarded.	13.3%	44%
Grow Language Services gross margin by 10% in 2018	30% (CEO and CFO)	Based on an improvement in the gross margin of Language Services from 40.5% to a margin of 45.2% in December 2018 (i.e. 12% growth), the Committee determined that this target has been achieved in full.	30%	100%

Governance: Annual Report on Remuneration continued

Targets for 2018	Weighting	Commentary	% of this part of the the bonus payable (out of 10% or 30%)	% of the maximum (out of 100%)
Grow Premium Vertical by 15% in 2018	10% (CEO and CFO)	Premium Vertical revenues increased from £40.1m for 2017 to £63.5m for 2018 (i.e. by 58%), resulting in the target being significantly exceeded for 2018.	10%	100%
Grow Machine Translation by 15% in 2018	10% (CEO and CFO)	Growth in wins in Machine Translation together with growth enabled by increased use of Machine Translation in Marketing Solutions and Life Sciences in 2018 was such that these total wins increased from 78 in 2017 to 131 in 2018 (i.e. by 68%), resulting in the target being significantly exceeded for 2018.	10%	100%
Deliver first release of Language Cloud in 2018	10% (CEO only)	On the basis that Language Cloud was launched in November 2018, the Committee is comfortable that this target should pay out in full.	10%	100%
Optimise finance operating model to reduce cost and improve operational effectiveness	10% (CFO only)	Following a review of the finance operating model in respect of cost reduction and operational effectiveness and noting the considerable progress made, the Committee agreed that this target should pay out in full.	10%	100%
Improve cash position target of £38.9m	10% (CEO and CFO)	Operating cash flow, pre discontinued operations and exceptional items, for 2018 was £45.6m against a target of £38.9m. As such, the Committee determined that 100% of the target was achieved.	10%	100%
Target % of salary	100%	Based on performance against the strategic targets and a broader review of Company performance in 2018, the Committee is satisfied that an award of 83.3% of maximum against the strategic targets is appropriate.	83.3% of maximum 21% of salary for the CEO, 16% of (prorated) salary for the CFO	

According to the SDL Deferred Annual Bonus Share Plan 2016, annual bonus in excess of 100% of base salary is deferred in shares for two years, and subject to the malus and claw back provisions of the plan. For 2018, the deferred element of the annual bonus for the CEO was £66,712.11.

LTIP vesting based on performance ending in 2018

The LTIP values included in the table below relate to awards granted in 2016 which will vest in 2019 dependent on adjusted EPS and TSR performance. Adjusted EPS and TSR are measured over the three-year period ended 31 December 2018.

Performance target	2018 adjusted EPS	Threshold adjusted EPS	Maximum adjusted EPS	Vesting %
Adjusted EPS (50% of awards)	24.7p	27p	39p	0

Under the TSR performance target (50% of awards) which uses a sliding scale, 25% of this part of an award vests for median TSR increasing pro rata to full vesting for upper quartile TSR, measured against the constituents of the FTSE SmallCap Index excluding investment trusts. The estimated three year performance based on TSR calculations is as follows:

Performance target	SDL TSR	Threshold TSR	Maximum TSR	Vesting %
TSR [1] (50% of awards)	17.6%	8.9%	55.0%	45.7%

1 Versus the FTSE SmallCap Index (excluding investment trusts).

As a result of adjusted EPS (0% of awards vest) and TSR (45.7% of awards vest) performance, the gross value of LTIP share awards expected to vest in 2019 are as follows:

	Share price at date of grant [1]	Share price at 31 December 2018 [1]	Proportion to vest	Shares expected to vest	Estimated dividend equivalents (shares)	Total shares expected to vest	Estimated value at 31 December £000s [1]
Adolfo Hernandez	419p	468.1p	22.85%	68,168	1,721	69,889	327

1 The share price at grant is based on a five day average immediately prior to the date of grant and the share price at 31 December 2018 is based on a three month average.

2018 LTIP awards granted during the year

	Basis of award granted	Nil-cost options awarded	Face value of awards £000s	Maximum vesting	% vesting for threshold performance	Vesting period
Adolfo Hernandez	250% of salary	311,721	1,250	100%	25%	Awards will vest on the third anniversary of grant subject to continued employment and achievement of performance conditions measured over the three financial years ending 31 December 2020
Xenia Walters	100% of salary	71,072	285	100%	25%	

Awards were granted as nil-cost options on 16 April 2018 and will vest subject to a relative TSR measure against the constituents of the FTSE SmallCap Index (excluding investment trusts) and adjusted 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 2020. The 'Face Value of awards' was calculated using the market share price at the date of award, 16 April 2018.

- TSR (50%) – No part of this award vests if performance is below the median of the comparator group, 25% vests for achieving performance at the median, with 100% vesting for TSR ranking at or above the upper quartile of the comparator group with straight line vesting in between; and
- Adjusted EPS (50%) – If adjusted EPS as disclosed in the Company's accounts for FY 2020 is less than 24p, no part of this award vests, 25% vests for adjusted EPS of 24p, with 100% vesting for EPS of 27.5p 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.

Information in the table below is 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:

	Award grant date	Share price at grant Pence	As at 1 January 2018	Granted during year	Lapsed during year	Vested during year	As at 31 December 2018	Earliest date shares can be acquired	Latest date shares can be acquired
Adolfo Hernandez	8 June 2016 [1]	419.00	298,329	–	230,161	68,168 [3]	68,168 [3]	8 June 2021	8 June 2026
	18 April 2017 [2]	562.50	222,025	–	–	–	222,025	18 April 2022	18 April 2027
	16 April 2018 [2]	401.00	–	311,721	–	–	311,721	16 April 2023	16 April 2028
Xenia Walters	16 April 2018 [2]	401.00	–	71,072	–	–	71,072	16 April 2023	16 April 2028
Dominic Lavelle	17 April 2015	444.75	62,957	–	62,957	–			
	8 June 2016	419.00	92,482	–	80,074	12,408	–	–	–
	18 April 2017	562.50	68,828		65,884	2,944	–	–	–

1 Performance in respect of the 2016 LTIP awards was measured against two metrics, 50% against SDL's relative TSR performance and 50% on adjusted EPS. Based on SDL's below threshold adjusted EPS performance (0% of this part of awards vest) and between threshold and maximum TSR performance (45.7% of this part of awards vest), 22.9% of the awards are expected to vest in June 2019.

2 Awards granted on 18 April 2017 and 16 April 2018 will vest subject to a relative TSR measure against the constituents of the FTSE SmallCap Index (excluding investment trusts) and adjusted EPS growth targets. These targets will be assessed independently of each other. The performance period for the award is the three financial years ending 31 December 2019 and 2020 respectively.

3 Vesting is subject to continued employment until 8 June 2019. Vested figure does not include dividend equivalents.

Governance: Annual Report on Remuneration continued

TSR

No part of these awards vest if performance is below the median of the comparator group, 25% vests for achieving performance at the median, with 100% vesting for TSR ranking at or above the upper quartile of the comparator group with straight line vesting in between.

Adjusted EPS

2016 awards: If adjusted EPS as disclosed in the Company's accounts for FY 2018 is less than 27p, no part of the award vests, 25% vests for adjusted EPS of 27p, with 100% vesting for adjusted EPS of 39p or higher, with straight line vesting in between.

2017 awards: If adjusted EPS as disclosed in the Company's accounts for FY 2019 is less than 30p, no part of this award vests, 25% vests for adjusted EPS of 30p, with 100% vesting for adjusted EPS of 42p or higher, with straight line vesting in between.

2018 awards: If adjusted EPS as disclosed in the Company's accounts for FY 2020 is less than 24p, no part of this award vests, 25% vests for adjusted EPS of 24p, with 100% vesting for adjusted EPS of 27.5p 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 in the table below is 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% of their salary. Until the guideline is met, the Executive Directors are required to retain 50% 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 2018 are set out below:

	Owned Number of shares		LTIP awards (nil-cost options) [1] Number of shares		Deferred bonus share awards (nil-cost options) [2] Number of shares		Total Number of shares	% of salary held under shareholding policy
	2017	2018	Unvested	Vested	Unvested	Vested	2018	2018
Executive Directors								
Adolfo Hernandez	120,000	152,500	533,746	68,168 [4]	–	–	754,414	205% [5]
Xenia Walters	10,490	10,490	71,072	–	–	–	81,562	18%
Dominic Lavelle [3]	82,970	82,970	–	–	–	–	–	–
Non-Executive Directors								
David Clayton	133,950	133,950	–	–	–	–	133,950	–
Glenn Collinson	36,500	43,000	–	–	–	–	43,000	–
Mandy Gradden	7,500	7,500	–	–	–	–	7,500	–
Alan McWalter	–	–	–	–	–	–	–	–
Christopher Humphrey	15,000	20,000	–	–	–	–	20,000	–

1 LTIP awards are granted in the form of nil-cost options subject to performance – further details can be found in the Outstanding Long-Term Incentive Plan awards table above.
2 Deferred bonus awards are granted in the form of nil-cost options and will normally be eligible to vest after two years from grant subject to continuous employment.
3 Dominic Lavelle stepped down from the Board on 28 March 2018 – shareholding is at date of leaving.
4 Vesting is subject to continued employment until 8 June 2019. Vested figure does not include dividend equivalents.
5 % of salary calculated using the share price as at 31 December 2018.

There has been no change in the interests of the current Directors between 31 December 2018 and 20 March 2019.

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. The figures above have been calculated using the share price as at 31 December 2018, 477.5p.

During the year, Adolfo Hernandez purchased: 20,000 shares at a price of 386p and 12,500 shares at a price of 520p.

Information is subject to audit

Payments for loss of office and payments to past Directors

In June 2017, SDL announced that Dominic Lavelle was taking temporary leave of absence from the Company in order to undergo treatment for a medical condition. On 29 March 2018, the Board agreed that he should step down from his position as CFO and Director of the Board. As per the Section 430 (2b) announcement issued on 4 April 2018, Dominic Lavelle received a termination payment consisting of:

- £320,000 in respect of 12 months' salary for his contractual notice period;
- £51,395 in respect of the 12 months' benefits for his contractual notice period;
- £185,000 to settle a claim arising from his employment;
- £54,580 in respect of arrears of Company sick pay; and
- £82,851 in lieu of wages, accrued but not taken holiday entitlement and expenses incurred.

The payments made in lieu of his notice period was made in quarterly instalments and subject to a duty to mitigate his loss.

While there was no entitlement to any annual bonus for the 2017 and 2018 financial years, deferred annual bonus shares (8,052) in respect of his 2016 annual bonus vested on cessation of employment.

In respect of outstanding LTIP awards, taking into account performance conditions to the date of cessation and time prorating, the Committee determined that:

- all of the shares under his 2015 LTIP award (62,957 shares) should lapse in full at cessation;
- 12,408 shares out of a total of 92,482 shares under his 2016 LTIP award should vest at cessation, with remainder lapsing
- 2,944 shares out of a total of 68,828 shares under his 2017 LTIP award should vest at cessation, with remainder lapsing.

No further payments will be made to Dominic Lavelle.

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place at 31 December 2018 are as follows:

	Contract date	Notice period Months
David Clayton	1 July 2013	3
Adolfo Hernandez	18 April 2016	12
Xenia Walters	3 April 2018	12
Glenn Collinson	1 June 2014	3
Mandy Gradden	30 January 2012	3
Christopher Humphrey	8 June 2016	3
Alan McWalter	1 March 2014	3

Relative importance of spend on pay

The following table sets out the percentage change in dividends and overall spend of employee pay in the 2018 financial year compared with the prior year.

	2018 £m	2017 £m	% change
Dividends	**5.1**	5.1	0
Total return to shareholders	**5.1**	5.1	0
Employee remuneration costs	**175.6**	149.1	17.8

Governance: Annual Report on Remuneration continued

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 CEO between the current and previous year compared to that of the average employee on a full time equivalent basis.

	2018 £000s	2017 £000s	% change
CEO			
Salary	**510.5**	500.0	+2.1
Benefits	**21.5**	22.0	-2.3
Bonus	**577.2**	–	–
Full time equivalent average UK employee [1]			
Salary	**46.8**	49.4	-5.3
Benefits	**1.6**	1.7	-5.9
Bonus	**3.3**	–	n/a

1 There are 535 UK employees at 31 December 2018 (31 December 2017: 473), of which 34 (2017: 33) were part time.

The table below shows the total remuneration figure for the CEO and Executive Chairman roles over the same 10 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.

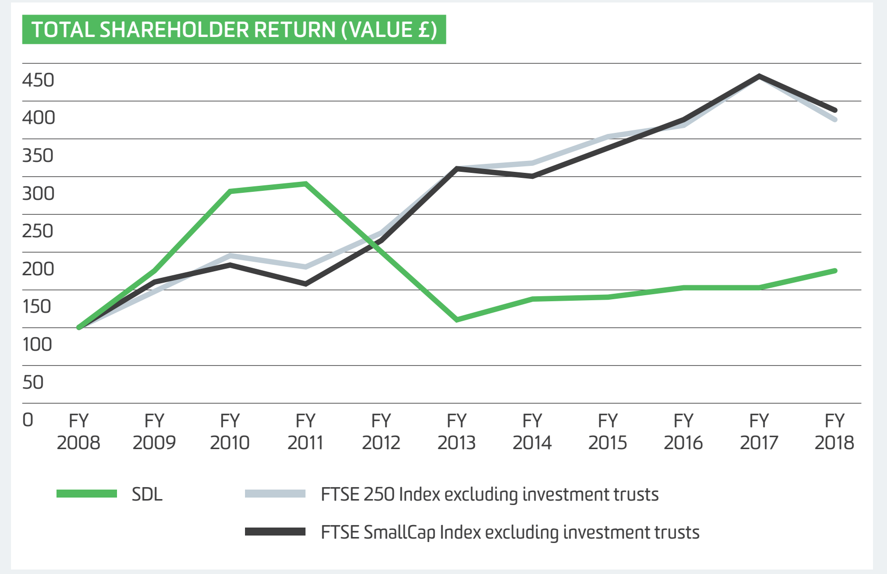
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CEO single total figure of remuneration (£000s)	914	954	1,200	729	597	1,285	1,911 [2]	1,252	582	**1,498**
Bonus payout (%)	40	44	47	24	–	53	–	84	–	**83.3**
LTIP vesting (%)	100	100	100	71.5	–	–	2013=0% [1] 2014=46% 2015=21%	–	–	**22.75**

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.

Performance graph and single figure history

The graph opposite shows the Company's TSR performance over the last 10 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.

Source: Datastream (Thomson Reuters)



Membership of the Remuneration Committee

The Code requires that the Remuneration Committee comprises 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 received advice during the year from:

– The Chairman, who attends the Remuneration Committee by invitation or when required and the Company Secretary, who attends meetings as Secretary to the Remuneration Committee. The Chief Executive attends the meetings upon invitation. No individual takes part in discussions relating to their own remuneration and benefits.
– The Committee's appointed external adviser (FIT Remuneration Consultants LLP). FIT replaced New Bridge Street during 2018, following a competitive tender process. FIT's fees for advice provided to the Remuneration Committee from appointment were £3,300. New Bridge Street's fees for 2018, up to the date FIT was appointed, were £17,226. FIT does not provide any other services to the Group and the Committee is satisfied that it provides independent and objective remuneration advice. FIT is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com.

External appointments

Executive Directors are permitted, where appropriate and with Board approval, to take Non-Executive Directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the Directors in their capacity as Directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. Neither of the Executive Directors currently holds an appointment of this nature.

Statement of shareholder voting at the AGM

The following table shows the voting results in respect of the 2017 Annual Statement and Annual Report on Remuneration at the 2018 AGM and the last time the Remuneration Policy was approved by shareholders at the 2016 AGM:

	For		Against		Withheld
	Number	%	Number	%	Number
2017 Annual Statement and Annual Report on Remuneration (2018 AGM)	44,041,369	72.10	17,063,155 [1]	27.90	11,147,905
Remuneration Policy (2016 AGM)	65,354,576	99.95	29,581	0.05	38,147

1 Details of the votes against, and the Committee's actions, are presented in the Annual Statement.

On behalf of the Board
Remuneration Committee Chairman
20 March 2019

Glenn Collinson

Directors' Report

INCORPORATED BY REFERENCE

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

3 Strategic Report

70 Board of Directors

67 Governance

114 Financial statements

The Directors present their report, together with the audited accounts for the year ended 31 December 2018.

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 3 to 66.

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 3 to 66 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 60 to 66.

The Group has a five year £120m syndicate revolving credit facility, expiring on 19 July 2023. The agreement includes a £50m uncommitted Accordian facility. The Group's borrowings as at 31 December 2018 was £5.4m (2017: £nil).

After reviewing performance in 2018, the Group's budget, cash flow forecasts and three year plans (to 2021), 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.

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 70 to 71. 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 26 April 2018 governing shares issuance.

Interests in contracts

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

Indemnification

The Company has entered into deeds of indemnity with each of its current Directors to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries. These indemnities are Qualifying Third-Party indemnity provisions as defined in section 234 of the Companies Act 2006 and copies are available for inspection at the registered office of the Company during business hours.

Remuneration

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

Annual General Meeting

Our 2019 AGM will be held at DLA Piper's offices, 160 Aldersgate Street, London EC1A 4HT at 9:30am on Tuesday 7 May 2019. The notice of the 2019 AGM will be made available to shareholders and will also be published on the Group website www.sdl.com/about/investors/annual-general-meeting.

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 2018 by the Trust are to be found in note 20 to the accounts. Since 31 December 2016, no shares have been purchased by the Trust to satisfy employee awards under The SDL Retention Share Plan. As at 31 December 2018 the Trust holds zero shares.

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 20 March 2019 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 20 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 pages 88 to 109.

Corporate Governance Code

A statement of the Group's compliance with the Corporate Governance Code is included on page 75.

Substantial shareholdings

All persons with a significant holding, along with the value of that holding are given in the table below (share price at 1 March 2019; 564 pence)

	As at 1 March 2019		
Shareholder	Number of shares	% of issued share capital	Value of holding £000s
Aberforth Partners	10,036,135	11.07	56,604
Artemis Investment Management	8,264,315	9.11	46,611
Schroder Investment Management	7,068,276	7.79	39,865
RGM Capital	6,317,613	6.97	35,631
River and Mercantile Asset Management	5,921,785	6.53	33,399
M&G Investment Management	3,880,152	4.28	21,884
AXA Investment Managers	3,683,866	4.06	20,777
Majedie Asset Management	3,458,942	3.81	19,508
Canaccord Genuity Wealth Management	2,949,970	3.25	16,638
Invesco Perpetual Asset Management	2,777,742	3.06	15,666

Governance: Directors' Report continued

Employees

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

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 have an inclusive environment where colleagues are treated with dignity and respect. By encouraging diversity, and employing people with different experiences, backgrounds and talent, we aim to reflect the customers and communities we serve and strengthen and grow as a business. Our selection, training, development and promotion policies ensure equal opportunities for all colleagues, regardless of factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, disability (including colleagues who become disabled during service). All decisions are based on merit.

We are working continually to improve the communication channels we use to engage, consult, inform and connect with colleagues, both to enable awareness of the financial and economic factors affecting the Group's performance and to ensure our colleagues' voices are heard. Our colleagues' feedback is important to us and we recognise that to drive our business forward we must respond to their feedback to ensure they are engaged in the decisions we make for the business.

We encourage the involvement of our employees and significant matters are communicated through regular updates from the CEO; 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 CFO has ultimate responsibility for Health and Safety.

A Health and Safety Committee, chaired by the CFO, meets regularly to discuss health and safety policy and review activities. Specific tasks are delegated to local managers and suitably trained individuals within the organisation.

SDL's policy on Health and 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 (2017: 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. No charitable donations were made to external charities and £225,000 (2017: £195,000) was committed 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 24 to the accounts.
- Particulars of events occurring after the balance sheet date are described in notes 26 and 13 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 above.
- Disclosures concerning greenhouse gas emissions are contained in the sustainability review of the Strategic Report on page 58.

By order of the Board

Adolfo Hernandez
Director
20 March 2019

Statement of Directors' responsibilities

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 International Financial Reporting Standards as adopted by the European Union (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, relevant, reliable 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

Adolfo Hernandez
Director
20 March 2019

Financial statements

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Independent Auditor's Report

to the members of SDL plc

Our opinion is unmodified

We have audited the financial statements of SDL plc ('the Company') for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 2.

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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders on 23 April 2010. The period of total uninterrupted engagement is for the nine financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

OVERVIEW

Materiality: Group financial statements as a whole	£1.2m (2017: £0.87m) 4.6% (2017: 4.4%) of continuing profit before tax and exceptional items	
Coverage	92% (2017: 96%) of absolute Group profit before tax [1]	
Key audit matters		**vs 2017**
Recurring risks	Recoverability of Group goodwill and Parent's investment in subsidiaries	◀▶
	Group and Parent: Revenue recognition – Technology license revenue (perpetual and term)	▲
	New: Capitalised development costs	▲
Event driven	**New:** Valuation of acquired intangible assets	▲

1 This is the total profits and losses as a percentage of the total profits and losses that made up Group profit before tax.

Independent Auditor's Report continued

to the members of SDL plc

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recoverability of Group goodwill

(Language Technologies and Content Technologies)

(£125.6m; 2017: £121.0m)

Refer to page 84 (Audit Committee Report), page 152 (accounting policy and financial disclosures).

Recoverability of Parent's investment in subsidiaries

(£224.9m; 2017: £222.6m)

Refer to page 170 (accounting policy) and page 171 (financial disclosures).

THE RISK

Forecast-based valuation

Goodwill in the Language Technologies and Content Technologies cash generating units and the carrying amount of the Parent Company's investments in subsidiaries are significant and at risk of irrecoverability due to dependence on achievement of forecasts and sales execution. The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

Goodwill is 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.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use of goodwill and the recoverable amount of the cost of investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Group.

OUR RESPONSE

Our procedures included:

- **Benchmarking assumptions**: In considering the reasonableness of key external inputs, such as projected long-term economic growth and discount rates, we compared the input assumptions to externally derived data. We challenged assumptions made by Group and assessed alternatives. We utilised our internal valuation specialists to assist in the consideration of some of these external benchmarks;
- **Sensitivity analysis**: We performed sensitivity analysis which considered reasonably possible changes in assumptions and their impact on the valuation;
- **Historical comparisons**: We assessed the historical accuracy of the Directors' forecasts;
- **Assessing transparency**: We assessed the adequacy of the Group's disclosures as to 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 valuation of goodwill. We assessed the adequacy of the Parent Company's disclosures in respect of the investment in subsidiaries.

Our results

- We found the Group's assessment of the recoverable amount of goodwill in the Group (Language Technologies and Content Technologies) and the Parent Company's investment in subsidiaries to be acceptable (2017: acceptable).

Revenue recognition – technology licence revenue

(perpetual and term)

(£21.0m; 2017: £17.4m)

Refer to page 84 (Audit Committee Report), page 136 (accounting policy) and page 138 (financial disclosures).

THE RISK

Subjective judgement
Technology revenue includes licenced software and related services in the Language Technologies and Content Technologies segments.

Technology revenue recognition is considered a significant audit risk as there can be significant judgement required in allocating the transaction price to the performance obligations of the contract, which requires estimation of the standalone selling price of the contract. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period.

OUR RESPONSE

Our procedures included:

- **Tests of details**: We inspected those contracts contributing the highest levels of licence revenue. We considered the appropriateness of the Directors' judgements in determining the allocation of the transaction price to the performance obligations of the selected contracts by reference to standalone selling prices, day rates for consultancy and training, support and maintenance rates and renewal rates.

Where appropriate, we agreed elements of the selected contracts that have been delivered to proof of delivery;

- **Assessing transparency**: We assessed the adequacy of the Group and Parent's disclosures in respect of technology licence revenue (perpetual and term).

Our results
- We found the Group and Parent's technology licence revenue (perpetual and term) to be acceptable (2017: acceptable).

Capitalised development costs

(£7.6m; 2017: £2.5m)

Refer to page 84 (Audit Committee Report), page 147 (accounting policy) and page 148 (financial disclosures).

THE RISK

Accounting judgement
The Group capitalises eligible employment costs of its software developers, which are incurred on the development of its software products.

In order to determine the amount of cost that should be capitalised, including the proportion of cost associated with its software developers on both new products and enhancements to the Group's existing products, the Group must assess whether the cost meets the capitalisation criteria set out in the relevant accounting standards. This requires significant judgement.

OUR RESPONSE

Our procedures included:

- **Accounting treatment**: We assessed whether the Group's development spend across product groups meet the criteria for capitalisation in accordance with the relevant accounting standards;
- **Personnel interviews**: We made enquiries of the Group's product managers and developers. We also inspected relevant documentation of meetings throughout the year to support the eligibility of the costs for capitalisation in accordance with the relevant accounting standards;
- **Test of details**: On a sample basis, we agreed capitalised amounts to supporting documentation including payroll reports and performed recalculation of relevant cost rates;
- **Our sector expertise**: We considered whether any recently launched products or those previously under development have been discontinued or their deployment delayed and, if this has occurred, we evaluated whether any impairment of the capitalised costs is required.

Our results
- We found the capitalised development costs to be acceptable (2017: acceptable).

Independent Auditor's Report continued

to the members of SDL plc

Valuation of acquired intangible assets

(£34.3m)

Refer to page 84 (Audit Committee Report), page 136 (accounting policy) and page 162 (financial disclosures).

THE RISK

Subjective valuation

The Group acquired Donnelley Language Solutions in July 2018 for $77.8m. The assets and liabilities acquired are required to be recorded at their acquisition-date fair values – as a result previously unrecognised intangible assets (customer relationships and technology assets) have been recognised on the balance sheet.

The identification and measurement of these intangible assets requires judgement and the application of potentially complex valuation techniques. Acquisition intangibles can be valued using cash flow models and therefore the recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of acquired intangibles has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

OUR RESPONSE

Our procedures included:

- **Our valuation experts**: We involved our own valuations specialists to assess whether the valuation methodology applied to each intangible asset (customer relationships and technology assets) was appropriate;
- **Evaluation of third party experts**: We assessed the competence and objectivity of the third party valuation experts engaged by the Group. We assessed whether all appropriate intangible assets were identified.
- **Benchmarking assumptions**: We compared the key assumptions used in the cash flow and replacement cost models, where appropriate, to externally derived publicly available data or post-acquisition results in relation to key inputs.
- **Assessing transparency**: We assessed the adequacy of the Group's disclosures in respect of the acquired intangible assets.

Our results

- The results of our testing were satisfactory and we consider the carrying value of acquired intangible assets in the Group to be acceptable.

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 £1.2m (2017: £0.87m), determined with reference to a benchmark of Group profit before tax normalised to exclude exceptional items as disclosed in note 7, of which it represents 4.6% (2017: 4.4%).

Materiality for the Parent Company financial statements as a whole was set at £0.7m (2017: £0.7m), determined with reference to a benchmark of Company total assets, of which it represents 0.17% (2017: 0.17%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06m (2017: £0.04m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 72 (2017: 64) reporting components, we subjected 8 (2017: 8) to full scope audits for Group purposes and 5 (2017: 6) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated on the following page.

Continuing profit before tax and exceptional items

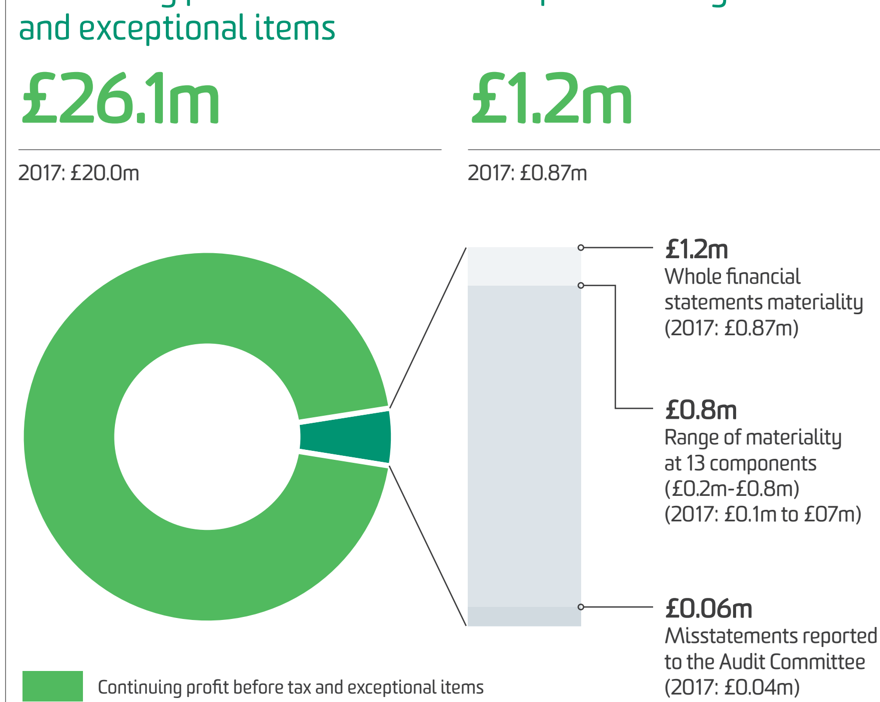
£26.1m

2017: £20.0m

Group materiality

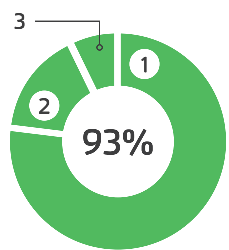
£1.2m

2017: £0.87m



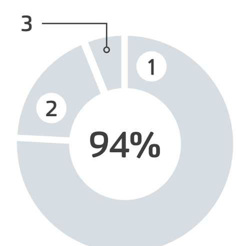
Independent Auditor's Report continued

to the members of SDL plc



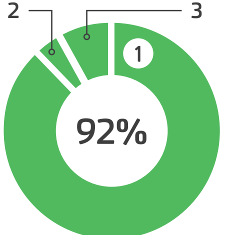
Group revenue 2018 (%)

1 Full scope for Group audit purposes	77
2 Specified risk-focused audit procedures	16
3 Residual components	7



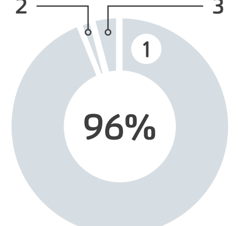
Group revenue 2017 (%)

1 Full scope for Group audit purposes	76
2 Specified risk-focused audit procedures	18
3 Residual components	6



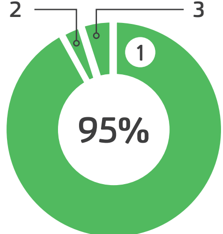
Absolute Group profit before tax 2018 (%)

1 Full scope for Group audit purposes	89
2 Specified risk-focused audit procedures	3
3 Residual components	8



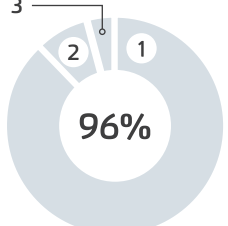
Absolute Group profit before tax 2017 (%)

1 Full scope for Group audit purposes	94
2 Specified risk-focused audit procedures	2
3 Residual components	4



Group total assets 2018 (%)

1 Full scope for Group audit purposes	92
2 Specified risk-focused audit procedures	3
3 Residual components	5



Group total assets 2017 (%)

1 Full scope for Group audit purposes	88
2 Specified risk-focused audit procedures	8
3 Residual components	4

The remaining 7% (2017: 6%) of total Group revenue, 8% (2017: 4%) of absolute Group profit before tax and 5% (2017: 4%) of total Group assets is represented by 59 (2017: 50) reporting components, none of which individually represented more than 1% (2017: 1%) of any of total Group revenue, Group profit before tax or total Group assets.

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 £0.2m to £0.8m (2017: £0.1m to £0.7m), having regard to the mix of size and risk profile of the Group across the components. The work on 5 of the 13 components (2017: 6 of the 13 components) was performed by component auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

The Group team visited 8 component locations in the US, UK and the Netherlands. (2017: 7 components in the US, UK, the Netherlands and Republic of Ireland) to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors and all of the others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- The impact of a severe global downturn in economic conditions of the global economy
- The impact of Brexit on the Group's operations.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of the erosion of customer confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 110 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Independent Auditor's Report continued

to the members of SDL plc

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the viability statement (page 66) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 113, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the Directors (as required by auditing standards), and discussed with the Directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery legislation and employment law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Haydn-Jones
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
Arlington Business Park
Reading
RG7 4SD
20 March 2019

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

	Notes	2018 £m	Restated 2017[1] £m
Sale of goods		**30.7**	27.9
Rendering of services		**292.6**	259.3
Revenue	3	**323.3**	287.2
Cost of sales		**(154.5)**	(136.7)
Gross profit		**168.8**	150.5
Administrative expenses		**(149.9)**	(133.5)
Operating profit	5	**18.9**	17.0
Adjusted operating profit		**29.0**	24.0
Amortisation of acquired intangibles	5	**(2.4)**	(4.0)
Exceptional items	7	**(7.7)**	(3.0)
Operating profit		**18.9**	17.0
Finance expense	8	**(0.5)**	–
Profit before tax		**18.4**	17.0
Tax charge (including an exceptional credit of £2.1m, 2017: £4.6m)	9	**(3.6)**	(1.6)
Profit from continuing operations		**14.8**	15.4
Profit from discontinued operations	4	**–**	14.7
Profit for the year attributable to equity holders of the Parent		**14.8**	30.1
Earnings per share (pence)	11		
Continuing operations			
– Basic		**17.2**	18.9
– Diluted		**16.9**	18.9
Continuing and discontinued operations			
– Basic		**17.2**	36.8
– Diluted		**16.9**	36.7

1 The Group has applied IFRS 15 using the fully retrospective method and as a result the comparative information has been restated, see note 2.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	2018 £m	Restated 2017 [1] £m
Profit for the year	**14.8**	30.1
Other comprehensive income / (expense): Items that may be reclassified subsequently to profit or loss		
Foreign exchange differences arising on the translation of foreign operations	**5.0**	2.0
Foreign exchange differences arising on the translation of foreign currency quasi equity loans to foreign operations, net of tax	**(0.1)**	(7.8)
Income tax credit on currency translation differences on foreign currency quasi equity loans	**–**	1.3
Total other comprehensive income / (expense)	**4.9**	(4.5)
Total comprehensive income for the year attributable to equity holders of the Parent Company	**19.7**	25.6

1 The Group has applied IFRS 15 using the fully retrospective method and as a result the comparative information has been restated, see note 2.

Consolidated Statement of Financial Position

at 31 December 2018

	Notes	2018 £m	Restated 2017[1] £m
Non current assets			
Intangible assets	13	**222.9**	152.9
Property, plant and equipment	12	**9.1**	9.6
Deferred tax assets	9	**8.9**	11.2
Other receivables	16a	**2.4**	1.9
Capitalised contract costs	16b	**0.8**	1.3
		244.1	176.9
Current assets			
Trade and other receivables	16a	**108.3**	85.4
Capitalised contract costs	16b	**1.9**	1.6
Tax assets		**6.6**	2.6
Cash and cash equivalents	18	**19.8**	22.7
		136.6	112.3
Total assets		**380.7**	289.2
Current liabilities			
Trade and other payables	17	**(105.1)**	(78.0)
Current tax liabilities		**(11.2)**	(10.6)
Provisions	19	**(0.7)**	(1.6)
		(117.0)	(90.2)
Non current liabilities			
Trade and other payables	17	**(0.7)**	(0.7)
Borrowings	18	**(5.4)**	–
Deferred tax liabilities	9	**(8.7)**	(1.6)
Provisions	19	**(3.3)**	(2.9)
		(18.1)	(5.2)
Total liabilities		**(135.1)**	(95.4)
Net assets		**245.6**	193.8
Represented by:			
Share capital	20	**0.9**	0.8
Share premium		**136.0**	100.7
Retained earnings		**79.3**	67.8
Translation reserve		**29.4**	24.5
Total equity		**245.6**	193.8

1 The Group has applied IFRS 15 using the fully retrospective method and as a result the comparative information has been restated, see note 2.

These consolidated financial statements were approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

Xenia Walters
Chief Financial Officer

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2017	**0.8**	**99.2**	**39.7**	**29.0**	**168.7**
IFRS 15 adjustment (note 2)	–	–	3.1	–	3.1
At 1 January 2017 (restated)	**0.8**	**99.2**	**42.8**	**29.0**	**171.8**
Profit for the year	–	–	30.1	–	30.1
Other comprehensive expense	–	–	–	(4.5)	(4.5)
Total comprehensive income / (expense)	**–**	**–**	**30.1**	**(4.5)**	**25.6**
Arising on share issues	–	1.5	–	–	1.5
Share-based payments (note 21)	–	–	0.2	–	0.2
Share-based payments deferred tax	–	–	(0.2)	–	(0.2)
Dividend paid (note 10)	–	–	(5.1)	–	(5.1)
At 31 December 2017	**0.8**	**100.7**	**67.8**	**24.5**	**193.8**
Profit for the year	–	–	14.8	–	14.8
Other comprehensive income	–	–	–	4.9	4.9
Total comprehensive income	**–**	**–**	**14.8**	**4.9**	**19.7**
Issue of shares	0.1	35.3	–	–	35.4
Share-based payments expense	–	–	1.9	–	1.9
Share-based payments deferred tax	–	–	(0.1)	–	(0.1)
Dividends paid	–	–	(5.1)	–	(5.1)
At 31 December 2018	**0.9**	**136.0**	**79.3**	**29.4**	**245.6**

The amounts above are all attributable to equity holders of the Parent Company.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £m	Restated 2017 [1] £m
Cash flow from operating activities			
Profit for the year		**14.8**	30.1
Tax expense		**3.6**	1.8
Profit before tax		**18.4**	31.9
Adjustments for:			
Depreciation of property, plant and equipment	12	**3.1**	2.9
Amortisation of intangible assets	13	**4.6**	4.0
Gain on disposal of business operations	4	**–**	(20.6)
Share-based payments expense	21	**1.9**	0.2
Interest expense		**0.5**	–
Foreign exchange (income) / expense		**(0.3)**	0.2
Cash generated from operations before changes in working capital and provisions		**28.2**	18.6
Trade and other receivables		**(8.2)**	(3.8)
Trade and other payables		**18.8**	(11.3)
Cash generated from operations		**38.8**	3.5
Income taxes paid		**(2.8)**	(2.9)
Net cash flow from operating activities		**36.0**	0.6
Investing activities			
Purchase of property, plant and equipment		**(2.2)**	(6.3)
Acquisition of subsidiaries net of cash acquired	27	**(59.2)**	–
Expenditure on intangible assets		**(12.2)**	(9.6)
Disposal of businesses net of cash disposed of	4	**–**	22.2
Net cash flow from investing activities		**(73.6)**	6.3
Financing activities			
Proceeds from issue of shares, net of costs	20	**35.4**	1.2
Proceeds from external borrowings	18	**19.6**	–
Repayment of external borrowings	18	**(14.4)**	–
Dividends paid	10	**(5.1)**	(5.1)
Finance costs		**(1.4)**	–
Net cash flow from financing activities		**34.1**	(3.9)
(Decrease) / increase in cash and cash equivalents		**(3.5)**	3.0
Cash and cash equivalents at 1 January		**22.7**	21.3
Effect of exchange rates changes		**0.6**	(1.6)
Cash and cash equivalents at 31 December	18	**19.8**	22.7

1 The Group has applied IFRS 15 using the fully retrospective method and as a result the comparative information has been restated, see note 2.

Notes to Consolidated Financial Statements

for the year ended 31 December 2018

1 Corporate information

The consolidated financial statements of SDL plc (the 'Group') for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 19 March 2019. 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 (IFRS) adopted for use by the European Union (EU) and therefore the Group's financial statements comply with Article 4 of the EU IAS regulation.

The principal activities of the Group are described in note 3.

2 Significant accounting policies

Note 2 includes a number of the Group's accounting policies. Other accounting policies are included within the respective financial statement note.

Statement of compliance

The consolidated financial statements of SDL plc and its subsidiaries have been prepared in accordance with IFRS 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 164 to 174. 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 Sterling (GBP) and all values are rounded to the nearest hundred thousand except where otherwise indicated.

Going concern

The Directors have concluded that it has adequate financial resources to continue in operation for a period of at least 12 months from the date of this report and can prepare its financial statements on a going concern basis.

The Directors have prepared cash flow forecasts for a period of (at least 12) months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, to meet its liabilities as they fall due for that period.

In reaching this conclusion, the Directors have considered the future prospects and performance of the Group, including: a review of performance in 2018; a review of the 2019 annual plan which includes cash flow forecasts to March 2020; a review of working capital including the liquidity position; a review of current and forecast financial covenant compliance and of current cash levels.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Basis of consolidation

The consolidated historical financial information has been prepared under the historical cost convention and is presented in Sterling (GBP). All values are rounded to the nearest 0.1 million (£m) unless otherwise indicated. The functional currency of SDL plc is Sterling. The accounting policies used in preparing the consolidated historical financial information for the year ended 31 December 2018 have been consistently applied to all years presented and are set out below. The historical financial information consolidates the financial information of SDL plc and the entities it controls (its subsidiaries) at 31 December 2018. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The financial information of the subsidiaries is prepared for the same reporting period as the Parent Company, using consistent accounting policies. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised are eliminated in full.

Application of new and revised IFRSs

IFRS 15 and IFRS 9 have been applied from 1 January 2018. IFRS 16 has been issued and is effective from 1 January 2019. The impact of the adoption of these standards is described below.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policies and updated its internal processes and controls relating to revenue recognition.

Notes to Consolidated Financial Statements continued
for the year ended 31 December 2018

2 Significant accounting policies continued

The Group has applied IFRS 15 using the fully retrospective method – i.e. applying IFRS 15 as though it had been in effect from 1 January 2017 resulting in a restatement of the comparative information and recognising the effect of initially applying IFRS 15 at 1 January 2018 as an adjustment to the opening balance of equity at 1 January 2017.

IFRS 15 provides a single, principles based five step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods and services.

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when or as the entity satisfies its performance obligations.

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 performance obligation 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.

The Group's language services contracts provide for the Group to be reimbursed for work as it is undertaken. Accordingly the Group recognises revenue over time, on a percentage of completion basis. The Group's professional services work is carried out either on a time and materials basis, where revenue is recognised at a point in time as the work is performed, or on a fixed price basis, where revenue is recognised over time, on a percentage of completion basis.

Sale of goods

Revenue from the sale of goods is recognised when it transfers control over a product to a customer.

The Group's software licences are either perpetual, term or Software as a Service (SaaS) in nature.

Revenue on perpetual and term licences, where there is no significant future vendor obligation, is recognised on delivery, less an allowance for future costs. SaaS, support and maintenance and hosting contracts have material ongoing future performance obligations associated with them and hence revenue is recognised over time. These policies are in line with the Group's previous accounting policies with the exception of the treatment of term licences.

In circumstances where a considerable future vendor obligation exists as part of a software licence and related services contract, 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 is recognised in full on delivery to the customer. The fair value of the support and maintenance performance obligation of these contracts is carved out and recognised over the support and maintenance and hosting service periods.

Previously, under IAS 18, in circumstances where a considerable future vendor obligation exists as part of a software licence and related services contract, the Group recognised revenue over the period that the obligation exists per the contract.

2 Significant accounting policies continued

Capitalised contract costs

IFRS 15 requires the deferral of direct costs relating to the sale of goods or services to be recognised in line with the revenue for those contracts. The Group has determined that these direct commission costs will be recognised over the contracted term of the contract, as additional renewal commissions are payable for future contract extensions.

Previously under IAS 18, no contract costs were capitalised and these costs were expensed as incurred. Details of the adjustments made are included below.

The following disclosures show the impact of IFRS 15 on the Group's financial statements.

Opening balances

The Group has made opening balance sheet adjustments arising from changes to the revenue recognition treatment of term licences and the capitalisation of costs to obtain contracts. The impact of the restatement on its 2017 accounts is set out below:

	Balance sheet as at 1 January 2017 £m
Recognition of term licence at point in time	1.4
Capitalisation of contract costs	2.5
Deferred tax impact of IFRS 15 adjustments	(0.8)
Total impact net of tax	3.1

Impact on the Consolidated Income Statement for the year ended 31 December 2017

		IFRS 15 adjustments			
	As reported £m	Adjustment 1 £m	Adjustment 2 £m	Adjustment 3 £m	Amounts with adoption of IFRS 15 £m
Sale of goods	26.4	1.5	–	–	27.9
Rendering of services	259.3	–	–	–	259.3
Revenue	285.7	1.5	–	–	287.2
Cost of sales	(136.7)	–	–	–	(136.7)
Gross profit	149.0	1.5	–	–	150.5
Administrative expenses	(134.0)	–	0.5	–	(133.5)
Operating profit	15.0	1.5	0.5	–	17.0
Profit before tax	15.0	1.5	0.5	–	17.0
Tax expense	(1.2)	–	–	(0.4)	(1.6)
Profit for the year from continuing operations	13.8	1.5	0.5	(0.4)	15.4
Profit from discontinued operations	14.7	–	–	–	14.7
Profit for the year	28.5	1.5	0.5	(0.4)	30.1

Earnings per share calculations have been restated following the adoption of IFRS 15 for 2017 and are disclosed in note 11.

Notes to Consolidated Financial Statements continued
for the year ended 31 December 2018

2 Significant accounting policies continued

Impact on the Consolidated Statement of Financial Position as at 31 December 2017

	As reported £m	IFRS 15 adjustments Adjustment 1 £m	Adjustment 2 £m	Adjustment 3 £m	Amounts with adoption of IFRS 15 £m
Non current assets					
Property, plant and equipment	9.6	–	–	–	9.6
Intangible assets	152.9	–	–	–	152.9
Deferred income tax	11.2	–	–	–	11.2
Capitalised contract costs	–	–	1.3	–	1.3
Rent deposits	1.9	–	–	–	1.9
	175.6	–	1.3	–	176.9
Current assets					
Trade and other receivables	82.7	2.7	–	–	85.4
Capitalised contract costs	–	–	1.6	–	1.6
Corporation tax	2.6	–	–	–	2.6
Cash and cash equivalents	22.7	–	–	–	22.7
	108.0	2.7	1.6	–	112.3
Total assets	283.6	2.7	2.9	–	289.2
Current liabilities					
Trade and other payables	(78.3)	0.3	–	–	(78.0)
Current tax liabilities	(10.6)	–	–	–	(10.6)
Provisions	(1.6)	–	–	–	(1.6)
	(90.5)	0.3	–	–	(90.2)
Non current liabilities					
Other payables	(0.7)	–	–	–	(0.7)
Deferred tax liability	(0.4)	–	–	(1.2)	(1.6)
Provisions	(2.9)	–	–	–	(2.9)
	(4.0)	–	–	(1.2)	(5.2)
Total liabilities	(94.5)	0.3	–	(1.2)	(95.4)
Net assets	189.1	3.0	2.9	(1.2)	193.8
Equity					
Share capital	0.8	–	–	–	0.8
Share premium	100.7	–	–	–	100.7
Retained earnings	63.1	3.0	2.9	(1.2)	67.8
Translation reserve	24.5	–	–	–	24.5
Total equity	189.1	3.0	2.9	(1.2)	193.8

Adjustment 1 – Term licences

The impact on 2017, as the comparative period, in the 2018 accounts has been to create an accrued income balance sheet position of £3.0m at 31 December 2017, recognising an increase of 2017 revenues and pre-tax profits by £1.5m. This reflects the recognition of term licences at a point in time rather than over time.

Adjustment 2 – Capitalised commissions

The impact on the Group's 2017 reported numbers has been to create capitalised contract costs on the balance sheet of £2.9m at 31 December 2017 and decrease 2017 profit and loss account commission costs by £0.5m.

2 Significant accounting policies continued

Adjustment 3 – Deferred tax

This adjustment reflects the adjustments required to the deferred tax liabilities and charges within the 2017 financial statements.

Impact on the Consolidated Statement of Cash Flows

As a result of the adoption of IFRS 15, certain reclassifications are required in relation to the recognition of contract assets and the Group have restated the trade and other receivables account recorded in the balance sheet as disclosed on page 126. Movements in the operating cash flow reflect the relevant cash and non-cash movements in reclassified line items. There has been no change in the net cash generated from operations as a result of these reclassifications or restatement of these balance sheet accounts.

IFRS 9 Financial Instruments

IFRS 9 applies a forward-looking impairment model that replaces the current applicable incurred loss model. In contrast to the complex and rules based approach of IAS 39, the new hedge accounting requirements provide an improved link to risk management and treasury operations and will be simpler to apply. The adoption of IFRS 9 did not have a material impact on the Group's consolidated results or financial position and does not require a restatement of comparative figures. The fair value of each category of the Group's financial instruments approximates to their carrying value. Where financial assets and liabilities are measured at fair values the measurement hierarchy, valuation techniques and inputs used are consistent with those used at 31 December 2017. There were no movements between different levels of the fair value hierarchy in the year. The Group has adopted the fully retrospective approach to restate 2017. There was no material impact.

Financial instrument at 1 January 2018	Classification under IAS 39	Classification under IFRS 9	Carrying amounts under IAS 39 £m	Carrying amount under IFRS 9 £m
Trade and other receivables	Loans and receivables	Amortised cost	74.6	74.6
Cash and cash equivalents	Loans and receivables	Amortised cost	22.7	22.7
Trade and other payables	Other financial liabilities	Other financial liabilities	40.7	40.7
Borrowings	Other financial liabilities	Other financial liabilities	–	–

Other amendments

The following amendments, which were effective for the first time in the current year but had no impact on the results or financial position of the Group:

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 40 Investment Property
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4
- Annual Improvements to IFRSs – 2014-2016 Cycle
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

Accounting standards that are not yet mandatory and have not been applied by the Group

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted. The Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease 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. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

2 Significant accounting policies continued

i. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its property and other operating leases (see note 22). The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous as described in note 22. Instead, the Group will include the payments due under the lease in its lease liability.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of between £27.0m and £30.0m as at 1 January 2019. The Group does not expect the adoption of IFRS 16 to impact its ability to comply with its loan covenants. We estimate the increase in EBITDA to be in the range of £8.5m to £9.5m with a combined increase in depreciation and interest in a similar range. The impact of IFRS 16 for the year-ended 31 December 2018 will be finalised and presented as a restatement along with the results for the half year ending 30 June 2019. The current level of operating leases held by the Group is disclosed in note 22.

ii. Leases in which the Group is a lessor

The Group will reassess the classification of sub-leases in which the Group is a lessor. Based on the information currently available, the Group expects that it will reclassify sub-leases as finance leases, resulting in recognition of a finance lease receivable. No significant impact is expected for other leases in which the Group is a lessor.

iii. Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Other standards

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

- IFRS 17 Insurance Contracts
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 28: Long-term interests in associates and joint ventures
- Annual Improvements to IFRSs (2015-2017 cycle)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to References to the Conceptual Framework in IFRS Standards

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 acquisition 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 income statement. If the business combination allows for deferred compensation this will be recognised in the income statement over the service period.

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

2 Significant accounting policies continued

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, the Group 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 of a foreign entity, the deferred accumulated amount recognised in equity relating to that particular foreign operation is recognised in the Consolidated Statement of Profit or Loss.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, unless they relate to capitalised assets. These costs include interest payable, commitment and amortised arrangement fees.

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. When financial instruments are recognised initially they are measured at fair value, being the transaction price plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Trade receivables

Trade receivables, which generally have 30-90 day payment terms mainly depending on the jurisdiction, are carried at original invoice amount, including value added tax and other sales taxes, less an estimate made for doubtful receivables based on a review of any outstanding amounts at the period-end and on historical performance.

Loss allowances for trade receivables and contract assets are measured at an amount equal to lifetime expected credit losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits repayable in 90 days or less. For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and bank deposits net of outstanding bank overdrafts.

Trade payables

Trade payables are recognised at cost, which is deemed to be materially the same as the fair value.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transactions costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the re-purchase, settlement or other cancellation of liabilities are recognised respectively in finance income and finance expense.

Derivative financial instruments

The Group from time to time enters into derivative financial instruments, principally forward foreign currency contracts to reduce its exposure to exchange rate movements and interest rate caps to reduce its exposure to fluctuating interest rates. The Group does not hold or issue derivatives for speculative or trading purposes.

Significant critical accounting judgements, estimates and assumptions

Judgements

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

Notes to Consolidated Financial Statements continued
for the year ended 31 December 2018

2 Significant accounting policies continued

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 – licence revenue

Licence revenue includes licenced software and related services. Where software is sold as a 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 between performance obligations. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. Licence revenue in the year amounted to £25.1m (2017: £17.4m).

Capitalised development costs

The Group capitalises development costs in line with IAS 38, Intangible Assets. Management applies judgement in determining if the costs meet the criteria, and are therefore eligible for capitalisation. Significant judgements include the technical feasibility of the development, recoverability of the costs incurred, economic viability of the product and potential market available considering its current and future customers and when, in the development process, these milestones have been met. Development costs capitalised during the year amounted to £7.6m (2017: £2.5m).

Estimates and assumptions

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

Determination of fair values of intangible assets acquired in business combinations

Intangible assets acquired in business combinations are important to the revenue generating capacity of the Group. The recognition of intangible assets requires management to apply judgement, and may require management to contract with specialists to assist when it deems necessary. The recognition of goodwill in a business combination results from assets which do not qualify for separate recognition, such as an assembled workforce, and buyer-specific synergies.

The fair values are based on a market participant's ability to utilise the assets, determined using a method appropriate to the specific intangible asset, and reflect assumptions and estimates that have a material effect on the carrying value of the asset.

Key assumptions and estimates made in valuing the acquired intangible assets include:

– Cash flow forecasts prepared at the time of acquisition, which involve estimating future business volumes;
– The discount rate applied to the forecasted future cash flows; and
– The costs to recreate the asset.

The nature and inherent uncertainty relating to these assumptions and estimates means that the actual cash flow may be materially different from the forecast, and would therefore have led to a different asset value. See note 13 for the useful lives and amortisation policies regarding intangible assets acquired in business combinations.

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 (CGU) or group of CGUs to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the CGUs, management's estimates of discount rates, long-term operating margins and long-term growth rates (note 15). If the results of the CGU in a future period are materially adverse to the estimates used for the impairment testing, an impairment charge may be triggered.

Other estimates and assumptions

Revenue – rendering of services

Management makes estimates of the total costs that will be incurred by SDL on a contract by contract basis. Management reviews the estimate of total costs on each contract on an ongoing basis to ensure that the revenue recognised accurately reflects the proportion of the work done at the balance sheet date. All contracts are of short-term nature. The majority of services work is invoiced on completion and the amount of year end work in progress amounted to £16.7m (2017: £10.9m).

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, 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

2 Significant accounting policies continued

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 9.

3 Segment information

For internal management reporting purposes, the operating segments are determined by product and service groupings and referred to as divisions. The Group's operating segments are:

- Language Services
- Language Technologies
- Content Technologies
- Non-Core Businesses

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profits represent the profit earned by each segment without allocation of central administration costs which are presented as a separate line below segment profit. This is the measure reported to the Chief Operating Decision Maker, the Chief Executive Officer, and Senior Management Team for the purposes of resource allocation and assessment of segment performance. Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties.

As previously announced the Group has concluded its shared cost allocation review during the period and shared costs are now being allocated on activity based methodologies. In prior years, shared costs for segmental reporting purposes have generally been apportioned to reporting segments either on a headcount or revenue basis. In addition, management have also recognised that the Group has a significant amount of corporate costs which are not segment specific. These costs have therefore been excluded from segment profitability and presented as a separate line below segment profit. The impact of these changes in methodology, in the year ended 2017, has been to reduce segments costs by £15.1m.

Management have concluded that changing the shared cost allocation methodologies and separately disclosing these corporate costs gives a better representation of segment profitability.

	2018 Revenue £m	2018 Depreciation and amortisation £m	2018 Adjusted operating profit £m	2017 Restated [1] revenue £m	2017 Depreciation and amortisation £m	2017 Restated [1] adjusted operating profit £m
Language Services	**218.2**	**3.2**	**23.0**	184.5	1.7	18.9
Language Technologies	**49.8**	**1.0**	**9.5**	49.0	0.7	10.2
Content Technologies	**55.3**	**1.1**	**14.9**	53.7	0.5	10.0
Non-Core Businesses	**–**	**–**	**–**	2.0	–	(3.0)
Segment total	**323.3**	**5.3**	**47.4**	289.2	2.9	36.1
Central costs			**(18.4)**			(15.1)
Group adjusted operating profit			**29.0**			21.0
Exceptional items			**(7.7)**			(5.7)
Profit on disposal			**–**			20.6
Amortisation on acquired intangibles			**(2.4)**			(4.0)
Finance costs			**(0.5)**			–
Profit before taxation			**18.4**			31.9

1 Restated for the impact of IFRS 15, see note 2.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

3 Segment information continued

Geographical analysis of external revenues by location of customer	2018 £m	Restated [1] 2017 £m
UK	**36.7**	37.4
EMEA (excluding UK)	**68.2**	59.6
USA	**129.3**	111.1
Americas (excluding USA)	**10.4**	12.6
Asia Pacific	**78.7**	68.5
	323.3	289.2

Geographical analysis of external revenues by location of entity	2018 £m	Restated [1] 2017 £m
UK	**67.1**	59.9
EMEA (excluding UK)	**85.1**	83.4
USA	**120.5**	100.9
Americas (excluding USA)	**15.0**	13.4
Asia Pacific	**35.6**	31.6
	323.3	289.2

The Group's revenue is diversified across its entire end customer base and no single end user accounted for greater than 10% of the Group's revenue in either 2017 or 2018.

Revenue recognised during the period that was included within deferred revenue at 1 January 2018 was £39.6m (2017: £39.3m).

Geographical analysis of non current assets excluding deferred tax and rent deposits	2018 £m	Restated [1] 2017 £m
UK	**53.0**	45.1
USA	**95.7**	64.8
Rest of World	**84.1**	52.6
	232.8	162.5

1 Restated for the impact of IFRS 15, see note 2.

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

4 Discontinued business operations (prior year)

There were no business disposals in the financial year ended 31 December 2018.

The Group completed the sale of its Fredhopper and Social Intelligence businesses during the 2017 financial year. The total gain on disposal was £20.6m before tax, being £21.3m for Fredhopper and a loss of £0.7m for Social Intelligence.

Income statement	2017 £m
Revenue	2.0
Cost of sales	(1.9)
Gross profit	0.1
Administrative expenses	(5.8)
Operating loss	(5.7)
Profit on disposal	20.6
Profit before tax	14.9
Tax charge	(0.2)
Profit from discontinued operations	14.7

4 Discontinued business operations (prior year) continued

Cash flows generated from discontinued operations	£m
Profit for the year	14.7
Tax charge	0.2
Profit before tax	14.9
Profit on disposal of discontinued operations	(20.6)
Movements in working capital	2.0
Net cash used in operating activities	(3.7)
Net cash generated from investing activities	22.2
Net cash flows for the period	18.5

Net cash used in investing activities includes the cash impact of the sale of the business as set out below:

Effect of disposal on the financial position of the Group	£m
Intangible assets	3.8
Trade and other receivables	2.7
Deferred income and other payables	(4.9)
Net assets	1.6
Net cash inflow	22.2
Gain on disposal of discontinued operations	20.6

5 Profit on ordinary activities

Operating profit is stated after charging	2018 £m	Restated [1] 2017 £m
Research and development expenditure	**17.6**	18.5
Depreciation of property, plant and equipment	**3.1**	2.9
Amortisation of acquired intangible assets	**2.4**	4.0
Amortisation of other intangible assets	**2.2**	–
Operating lease rentals for plant and machinery	**0.1**	0.1
Operating lease rentals for land and buildings	**8.3**	6.9
Net foreign currency differences	**0.5**	0.5
Share-based payments expense	**1.9**	0.2

1 Restated for the impact of IFRS 15, see note 2.

Research and development costs

Management continually review research and development expenditure to assess whether any costs meet the criteria for capitalisation. In addition to the amounts charged to the income statement the Group has capitalised £7.6m (2017: £2.5m) of research and development costs in the year.

Research and development operating cost disclosures have been amended to only include directly attributable salary and external costs, and specifically exclude all allocations of support and central costs. This is a methodology change and has been performed to bring the basis of research and development operating costs disclosure in line with the basis of capitalised research and development costs, enabling users of the accounts to compare these disclosures on a like for like basis. Research and development costs have been amended to £18.5m for the year ended 31 December 2017 (Previously reported: £26.4m).

Auditor's remuneration	2018 £m	2017 £m
Fees payable to the Company's auditors of the Parent Company and consolidated accounts	**0.5**	0.4
Non audit-related assurance services	**0.1**	0.1
Total	**0.6**	0.5

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

6 Employee costs

Accounting policy

Pension cost

The Group operates defined contribution pension schemes for its employees. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions to defined contribution schemes are recognised in the Consolidated Statement of Profit or Loss in the period in which they become payable.

	2018 £m	2017 £m
Wages and salaries	**147.9**	127.0
Social security costs	**18.6**	16.9
Defined contribution pension scheme cost	**5.1**	5.0
Share-based payments expense (note 21)	**1.9**	0.2
	173.5	149.1

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

	2018 Number	2017 Number
Administration and commercial	**1,204**	1,173
Production	**2,675**	2,474
Total average number of employees	**3,879**	3,647

7 Exceptional items

Accounting policy

Exceptional items are those items that in management's judgement should be disclosed separately by virtue of their size, nature or incidence, in order to provide a better understanding of the underlying financial performance of the Group. In determining whether an event or transaction is exceptional, management considers qualitative as well as quantitative factors such as frequency or predictability of occurrence.

Continuing operations	2018 Pre tax £m	2018 Tax impact £m	2018 Total £m	2017 Pre tax £m	2017 Tax impact £m	2017 Total £m
Restructuring costs	**4.1**	**(1.0)**	**3.1**	2.1	(0.4)	1.7
Acquisition related costs	**2.8**	**(0.1)**	**2.7**	–	–	–
Other exceptional items	**0.8**	**–**	**0.8**	0.9	(0.2)	0.7
Total continuing	**7.7**	**(1.1)**	**6.6**	3.0	(0.6)	2.4
Discontinued operations						
Restructuring costs	**–**	**–**	**–**	0.8	(0.2)	0.6
Other exceptional items	**–**	**–**	**–**	1.9	–	1.9
Total discontinued	**–**	**–**	**–**	2.7	(0.2)	2.5
	7.7	**(1.1)**	**6.6**	5.7	(0.8)	4.9

Restructuring costs

Restructuring costs relate to the costs of organisational change associated with the Group's transformation programme concluded in 2018. Normal trading redundancy costs are charged to the income statement as incurred. Payments made in relation to the exit of the former CFO, Dominic Lavelle amounted to £0.9m (2017: £nil). The results of cost savings will be shown within operating profit.

7 Exceptional items continued

Acquisition related costs

Acquisition related costs of £2.8m include £2.3m of due diligence, legal, accounting, valuation and other professional services as well as £0.5m of acquisition-related integration costs.

Other exceptional items

Other exceptional costs include a £0.8m tax penalty which is considered exceptional due to its size and nature. The amount represents management's best estimate of tax penalties that will arise in connection with revisions to certain transfer pricing transactions that have occurred in prior years. Also included within other items are the release of £0.1m property provisions which were not utilised.

Other exceptional costs in the prior year of £0.9m primarily related to dual running costs associated with relocation of the Group's two principal UK offices.

Discontinued exceptional items

Discontinued exceptional items in the prior year relate to redundancy costs associated with employees that did not transfer with the Non-Core Businesses (£0.8m) and professional fees and onerous lease charges associated with the disposals of the Non-Core Business operations (£1.9m).

8 Finance expense

	2018 £m	2017 £m
Interest expense on borrowings	**0.5**	–

9 Taxation

Accounting policy

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The Group operates in numerous tax jurisdictions around the world and it is Group policy to submit its tax returns to the relevant tax authorities as promptly as possible. At any given time, the Group is involved in disputes and tax audits and will have a number of tax returns potentially subject to audit. Significant issues may take several years to resolve. In estimating the probability and amount of any tax charge, management takes into account the views of internal and external advisers and updates the amount of tax provision whenever necessary. The ultimate tax liability may differ from the amount provided depending on interpretations of tax law, settlement negotiations or changes in legislation.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences related to investments in subsidiaries and associates where the Group is able to control the timing of the reversal of the temporary difference and it is probable that this will not reverse in the foreseeable future; on the initial recognition of non-deductible goodwill; and on the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, does not affect the accounting or taxable profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date. Deferred tax is measured on an undiscounted basis, and at the tax rates that have been enacted or substantively enacted by the reporting date that are expected to apply in the periods in which the asset or liability is settled. It is recognised in the income statement except when it relates to items credited or charged directly to other comprehensive income or equity, in which case the deferred tax is also recognised within other comprehensive income or equity respectively (share-based payments). Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority, when the Group intends to settle its current tax assets and liabilities on a net basis and that authority permits the Group to make a single net payment.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

9 Taxation continued

Accounting policy continued

In the UK, the Group is entitled to a tax deduction for amounts treated as remuneration on exercise of certain employee share options. As explained under 'Share-based payments' below, a remuneration expense is recorded in the consolidated income statement over the period from the grant date to the vesting date of the relevant options.

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.

Taxation charge attributable to the Group

UK corporation tax for the year ended 31 December 2018 is calculated at 19% (2017: 19.25%) of the estimated assessable loss for the period.

	2018 £m	Restated [1] 2017 £m
Current tax:		
UK corporation tax at 19.0% (2017: 19.25%)	**1.5**	–
Overseas current tax (credit) / charge	**(0.3)**	8.4
Adjustment in respect of previous years	**–**	(0.2)
Total current tax charge	**1.2**	8.2
Deferred tax:		
Origination and reversal of temporary differences	**2.4**	0.4
Changes in tax rates	**–**	3.3
Adjustments to estimated amounts arising in prior periods	**–**	(10.1)
Total deferred tax charge / (credit)	**2.4**	(6.4)
Total tax charge as per the income statement (2017: continuing £1.6m, discontinued £0.2m)	**3.6**	1.8
Tax in other comprehensive income	**–**	–
Tax in equity	**(0.1)**	–
Tax attributable to the Group	**3.5**	1.8

1 Restated for the impact of IFRS 15, see note 2.

In 2018, the Group finalised its last s382 calculation in respect of prior US acquisitions. The completion of this exercise together with other deferred tax adjustments has given rise to an exceptional deferred tax credit of £2.1m. This is included within the origination and reversal of temporary differences.

An exceptional credit of £4.6m was recognised in 2017. This credit relates to previously unrecognised tax losses of £10.1m and tax credit associated with exceptional items charged to operating profit of £0.6m offset by a £2.8m transition tax charge arising from the US tax reform enacted in December 2017 and a £3.3m charge associated with the reduction in the value of the Group's US deferred tax asset following the reduction of the US Federal tax rate from 35% to 21%. The recognition of previously unrecognised tax losses in the year was driven by the completion of s382 tax loss analyses in the US which confirmed the availability of historic losses.

9 Taxation continued

The charge for the year can be reconciled to profit for the year before taxation per the Consolidated Statement of Profit or Loss as follows:

	2018 £m	Restated [1] 2017 £m
Profit for the year before taxation (2017: continuing £17.0m, discontinuing £14.9m)	**18.4**	31.9
Profit for the year before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**3.5**	6.1
Effects of :		
Expenses not deductible for tax purposes	**1.3**	0.6
Adjustments in respect of previous years	**–**	(0.4)
Recognition of previously unrecognised trading losses / timing differences	**(2.1)**	(6.2)
Utilisation of tax losses brought forward previously not recognised	**(0.4)**	(0.5)
Current tax losses not available for offset	**–**	0.2
US transition tax	**–**	2.8
Impact of reduction in US federal tax rate	**–**	3.3
Higher/ (lower) tax rates on overseas earnings	**0.6**	(2.1)
Disposal of sale of Non-Core Businesses	**–**	(3.7)
Other movements	**0.7**	1.7
Tax charge as per the income statement	**3.6**	1.8
Effective tax rate	**20%**	5%

1 Restated for the impact of IFRS 15, see note 2.

The Group's taxation strategy is aligned to its business strategy and operational needs. Oversight of taxation is within the remit of the Audit Committee. The CFO is responsible for tax strategy supported by a global team of tax professionals and advisers. SDL strives for an open and transparent relationship with all revenue authorities and are vigilant in ensuring that the Group complies with current tax legislation.

The Group's tax rate is sensitive to the geographic mix of profits and reflects a combination of higher rates in certain jurisdictions, such as Germany and Japan, a low rate in the UK and other rates that lie in between. As such the Group's effective tax rate is higher than the UK's statutory tax rate mainly due to its mix of profits. The Group is subject to many different forms of taxation including, but not limited to, income and corporation tax, withholding tax and value added and sales taxes.

The Group has operations in 39 countries and multiple states in the US.

Key influences

In the UK, a reduction in the corporate tax rate from 19% to 17% from April 2020 was enacted on 6 September 2016. The US Tax Cuts and Jobs Act was enacted on 22 December 2017, reducing the statutory rate of US Federal corporate income tax from 35% to 21% with effect from 1 January 2018.

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority. The methodology used to estimate liabilities is set out in note 2. In common with other multinational companies and given the Group has operations in 39 countries, transfer pricing arrangements are in place covering transactions that occur between Group entities. The Group has undertaken a review of potential tax risks and current assessments and whilst it is not possible to predict the outcome of any pending revenue authority investigations, adequate provisions are considered to be included in the Group accounts to cover any expected estimated future settlement. In carrying out this review, management have made judgements, taking into account: the status of any unresolved matters; the strength of technical argument and clarity of legislation; external advice and statute of limitations. As a result of the review it has been concluded that some adjustments are likely to be required to the historic transfer pricing arrangements specifically between the UK, Ireland and the US. The Group has entered into discussions in relation to this matter with tax authorities and the expected tax payment of £1.1m to the UK tax authorities (after the use of tax losses) and repayment of £3.2m from the Irish tax authorities is included in the current tax liabilities and tax assets. The £3.2m tax asset is expected to be recoverable after more than one year. Given the uncertainty in respect of the outcome of this and other potential challenges to the Group's transfer pricing arrangements, the Group has provisions of £3.4m (2017: £5.0m) included within current tax liabilities in relation to uncertain tax positions. The Group does not believe that there is significant risk of a material change to the carrying value of tax assets and liabilities within the next financial year related to the accounting estimates and assumptions described above.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

9 Taxation continued

Expected future rate and Brexit

The Group does not anticipate any significant impact on the future tax charge, liabilities or assets, as a result of the triggering of Article 50(2) of the Treaty on European Union, but cannot rule out the possibility that, for example, a failure to reach satisfactory arrangements for the UK's future relationship with the EU, could have an impact on such matters.

Deferred tax assets and liabilities are attributable to the following:

	2018 £m	2017 £m
Deferred tax assets in relation to:		
Tax value of carry forward losses of UK subsidiaries	**0.3**	1.5
Tax value of carry forward losses of overseas subsidiaries	**6.2**	8.9
Movements in capital allowances	**0.2**	0.6
Other timing differences	**2.2**	0.2
Total deferred tax asset	**8.9**	11.2
Deferred income tax liabilities in relation to:		
Intangible assets	**5.2**	0.3
Other timing differences	**3.5**	1.3
Total deferred tax liability	**8.7**	1.6

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Losses

A deferred tax asset has been recognised in respect of losses where current forecasts indicate profits will arise in the future period against which the losses recognised will be offset. At the balance sheet date the Group has unused tax losses of £105.9m (2017: £122.0m) available for offset against future profits. A deferred tax asset has been recognised in respect of £30.80m (2017: £51.1m) of such losses. No deferred tax asset has been recognised in respect of the remaining £75.1m (2017: £70.9m) as it is not considered probable that there will be the required type of future trading or non-trading profits available in the correct entities necessary to permit offset and recognition.

The Group has recognised deferred tax assets on losses of £6.6m (2017: £10.4m). The amounts recognised are based on the historical profitability and the forecast future taxable profits of the relevant entities. Recognised deferred tax assets principally relate to UK and US activities. The unrecognised deferred tax asset on losses is £15.5m (2017: £13.8m).

Included within other short-term temporary differences are deferred tax assets in respect of potential Schedule 23 tax benefits of £0.5m (2017: £0.2m) and a deferred tax liability in respect of business combination intangible assets of £5.3m (2017: £1.3m).

Reconciliation of movement on deferred tax liability:

	2018 £m	Restated [1] 2017 £m
At 1 January	**1.6**	1.1
Adjustment on initial application of IFRS 15	**–**	1.2
Restated at 1 January 2017	**1.6**	2.3
Arising on business combination	**5.3**	
Retranslation of opening balances	**0.1**	–
Reversal of temporary differences arising on the amortisation of intangibles	**(0.3)**	(0.8)
Other temporary differences arising in the period	**0.6**	0.1
Tax effect of capitalised development	**1.4**	–
Deferred tax liability at 31 December	**8.7**	1.6

1 Restated for the impact of IFRS 15, see note 2.

9 Taxation continued

Reconciliation of movement on deferred tax asset:

	2018 £m	2017 £m
At 1 January	**11.2**	8.4
Retranslation of opening balances	**0.1**	(0.2)
Recognition of previously unrecognised losses	**1.9**	10.1
US transition tax charge sheltered by US tax losses	**–**	(2.8)
US federal rate change	**–**	(3.3)
Tax loss utilised in the period	**(4.4)**	(2.5)
Temporary differences arising in the period	**–**	1.7
Deferred income tax asset arising on share-based payments recorded in statement of changes in equity	**0.1**	(0.2)
Deferred tax asset at 31 December	**8.9**	11.2

The deferred tax asset of £8.9m (2017: £11.2m) and liability of £8.7m at 31 December 2018 (2017: £1.6m) have been calculated based on the rate of 19% which was enacted at the balance sheet date or local tax rates as applicable in overseas territories.

10 Dividends

	2018 £m	2017 £m
Final ordinary dividend for the year ended 31 December 2017 was 6.2 pence per share. (Year ended 31 December 2016: 6.2 pence per share)	**5.1**	5.1

A final dividend for 2018 of 7.0 pence per ordinary share was proposed by the Board on 19 March 2019 and will be paid, subject to shareholder approval, on 7 May 2019 to shareholders on the Register of Members on 10 June 2019. The estimated amount of this dividend is £6.3m. The Group pursues a progressive dividend policy, with the aim of increasing the Sterling value of ordinary dividends over time broadly based on the Group's underlying growth in earnings, while taking into account capital requirements and cash flows. Future dividends will be dependent upon future earnings, the future financial condition of the Group and the Board's dividend policy. The Board reviews the appropriate level of total annual dividend each year at the time of the full year results. The distributable reserves of SDL plc at 31 December 2018 amounted to £58.7m.

11 Earnings per share

Accounting policies

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the basic earnings per share for the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, which comprise share options and awards granted to employees.

Adjusted earnings per share

Adjusted earnings per share is a trend measure, which presents the long-term profitability of the Group excluding the impact of specific transactions that management considers affects the Group's short-term profitability. The Group presents this measure to assist investors in their understanding of trends. Adjusted operating profit is the numerator used for this measure. The Group has identified the following items as those to be excluded when arriving at adjusted operating profit: amortisation of acquisition intangible assets and exceptional items.

Notes to Consolidated Financial Statements continued
for the year ended 31 December 2018

11 Earnings per share continued
The following reflects the income and share data used in calculating EPS:

	2018 £m	Restated[1] continuing 2017 £m	Discontinued 2017 £m	Restated[1] total 2017 £m
Profit for the year	**14.8**	15.4	14.7	30.1
Exceptional items charged within operating profit	**7.7**	3.0	2.7	5.7
Profit on disposal of non-core businesses	**–**		(20.6)	(20.6)
Amortisation on acquired intangibles	**2.4**	4.0	–	4.0
Tax effect of the above	**(1.6)**	(1.4)	(0.2)	(1.6)
Exceptional tax credit	**(2.1)**	(4.6)	–	(4.6)
Adjusted profit for the year	**21.2**	16.4	(3.4)	13.0
	Number	Number	Number	Number
Weighted average number of ordinary shares	**86,147,916**	81,947,503	81,947,503	81,947,503
Effects of dilution from share options	**1,657,337**	193,091	193,091	193,091
Weighted average number of ordinary shares adjusted for the effect of dilution	**87,805,253**	82,140,594	82,140,594	82,140,594
	Pence	Pence	Pence	Pence
Basic EPS	**17.2**	18.9	17.9	36.8
Diluted EPS	**16.9**	18.9	17.8	36.7
Adjusted basic EPS	**24.7**	20.1	(4.2)	16.0
Adjusted diluted EPS	**24.2**	20.1	(4.2)	15.9

1 Restated for the impact of IFRS 15, see note 2.

12 Property, plant and equipment

Accounting policy
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 10 years or the lease term straight line
Computer equipment	4-5 years straight line
Fixtures and fittings	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.

12 Property, plant and equipment continued

	Leasehold improvements £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost				
As at 1 January 2017	2.6	26.7	2.5	31.8
Additions	3.5	2.4	0.5	6.4
Disposals	(0.7)	(0.2)	(0.2)	(1.1)
Effect of movements in exchange rates	0.1	1.0	–	1.1
As at 1 January 2018	**5.5**	**29.9**	**2.8**	**38.2**
Additions	–	1.4	0.7	2.1
Acquired through business combinations	–	0.3	0.1	0.4
Disposals	–	(1.6)	(0.1)	(1.7)
Effect of movements in exchange rates	0.1	1.0	–	1.1
As at 31 December 2018	**5.6**	**31.0**	**3.5**	**40.1**
Accumulated depreciation:				
As at 1 January 2017	(1.9)	(22.8)	(1.8)	(26.5)
Charge for the year	(0.5)	(2.2)	(0.2)	(2.9)
Disposals	0.7	0.2	0.2	1.1
Effect of movements in exchange rates	–	(0.3)	–	(0.3)
At 1 January 2018	**(1.7)**	**(25.1)**	**(1.8)**	**(28.6)**
Charge for the year	(0.6)	(2.2)	(0.3)	(3.1)
Disposals	–	1.5	0.1	1.6
Effect of movements in exchange rates	–	(0.9)	–	(0.9)
At 31 December 2018	**(2.3)**	**(26.7)**	**(2.0)**	**(31.0)**
Net book value:				
As at 31 December 2018	**3.3**	**4.3**	**1.5**	**9.1**
As at 31 December 2017	3.8	4.8	1.0	9.6

13 Intangible assets

Accounting policy

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired from a business combination are initially recognised at fair value. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software, and incremental payroll and payroll-related costs arising from the assignment of employees to implementation projects. Capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

13 Intangible assets continued

Accounting policy continued

Intangible assets with a finite life have no residual value and are amortised over their expected useful lives as follows:

Intangible assets arising on acquisition of subsidiaries

- Customer relationships amortised on a straight line basis over their estimated useful life of between five and 15 years.
- Intellectual Property and Software Development are amortised on a straight line basis over their estimated useful life of between 1.5 and 10 years.
- Goodwill is not amortised but is subject to annual impairment testing (see note 15).

Other purchased intangible assets

- Software – between five and 10 years on a straight line basis.

The amortisation expense on non-acquired intangible assets with finite lives is recognised in the Consolidated Statement of Profit or Loss as an administrative expense. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least annually. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with indefinite useful lives (goodwill) are tested for impairment annually either individually or at the CGU level. Such intangibles are not amortised. Except for goodwill, the term of their useful life is reviewed annually to determine whether indefinite life assessment continues to be appropriate.

Goodwill

Goodwill arising on business combinations (representing the excess of fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised, and its subsequent measurement is based on annual impairment reviews, with any impairment losses recognised immediately in the income statement. Direct costs of acquisition are recognised immediately in the income statement as an expense.

Goodwill arising on acquisitions pre 1 January 2004 was capitalised and amortised over its useful economic life, which was presumed to be eight 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.

Research and development

Research costs are expensed as incurred. Development expenditure 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 economic benefit from the related project. For capitalised development costs this period is three to five years.

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 period 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.

13 Intangible assets continued

	Customer relationships £m	Intellectual property £m	Goodwill £m	Capitalised R&D £m	Software £m	Total £m
Cost:						
At 1 January 2017	18.6	60.6	212.6	–	–	291.8
Disposals	(1.4)	–	–	–	–	(1.4)
Additions	–	–	–	2.5	7.1	9.6
Effect of movements in exchange rates	(0.6)	(1.4)	(4.6)	–	–	(6.6)
At 1 January 2018	**16.6**	**59.2**	**208.0**	**2.5**	**7.1**	**293.4**
Additions	–	–	–	7.6	4.6	12.2
Acquired on business combination	30.1	4.3	22.3	–	–	56.7
Disposals	–	–	–	–	(0.4)	(0.4)
Effect of movements in exchange rates	1.6	1.4	5.0	–	–	8.0
At 31 December 2018	**48.3**	**64.9**	**235.3**	**10.1**	**11.3**	**369.9**
Amortisation:						
At 1 January 2017	(17.3)	(56.7)	(65.9)	–	–	(139.9)
Charge for the year	(0.9)	(3.1)	–	–	–	(4.0)
Disposals	1.4	–	–	–	–	1.4
Effect of movements in exchange rates	0.6	1.4	–	–	–	2.0
At 1 January 2018	**(16.2)**	**(58.4)**	**(65.9)**	**–**	**–**	**(140.5)**
Charge for the year	(0.9)	(1.5)	–	(1.1)	(1.1)	(4.6)
Disposals	–	–	–	–	0.4	0.4
Effect of movements in exchange rates	(1.4)	(0.9)	–	–	–	(2.3)
At 31 December 2018	**(18.5)**	**(60.8)**	**(65.9)**	**(1.1)**	**(0.7)**	**(147.0)**
Net book value						
At 31 December 2018	**29.8**	**4.1**	**169.4**	**9.0**	**10.6**	**222.9**
At 31 December 2017	0.4	0.8	142.1	2.5	7.1	152.9

14 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 Company		
SDL MLS GmbH	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Holdings BV	Hoogoorddreef 60, 1101 BE Amsterdam, The Netherlands	Netherlands
SDL Nominees Ltd [1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL Global Holdings Ltd [1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Automated Language Processing Services Ltd [1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Interlingua Group Ltd [1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alterian Holdings Ltd [1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom

Notes to Consolidated Financial Statements continued

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14 Investments in subsidiaries continued

Name of Company	Registered address of business	Country of incorporation
Holding Company continued		
Intrepid Consultants Ltd[1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alpnet UK Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Computype Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Mediasurface Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL (Poole) Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL (Newbury) Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL Minorities Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alterian Holdings Inc	Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle	USA
Language Services		
SDL Belgium NV	Vital Decosterstraat 44, 3000 Leuven, Belgium	Belgium
SDL do Brazil Global Solutions Ltda	Rua Barao do Trinfo 73, Rooms 63-67, Brooklin Paulista, Sao Paolo	Brazil
SDL International (Canada) Inc	1155 Metcalfe St, Suite 1200, Montreal, Quebec, Canada H3B 2V6	Canada
SDL Chile SA	Avenida Holanda 00 Oficina 1002 Providencia, Region Metropolitana, Santiago 7510021 Chile	Chile
SDL Zagreb doo	Bednjanska 14/II, 10 000 Zagreb	Croatia
SDL CZ sro	Nerudova 198 Hradec Kralove 500 02 Czech Republic	Czech Republic
SDL France SARL	36 avenue du Général de Gaulle, Paris 93170, France	France
SDL Multilingual Services GmbH and Co KG[1]	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Hellas MEPE	Philippou 6, Metamorfosi, Athens 144 51, Greece	Greece
SDL Hong Kong Ltd	Level 3 Henley Building, 5 Queens Road Central, Hong Kong	Hong Kong
SDL Magyaror szaj szolgaltato Kft	Arboc u. 6 III., Budapest, H-1702	Hungary
SDL Multilingual Solutions Private Ltd	1319, 13th Floor, Bldg A1, Rupa Solitaire, Sector 1, Millenium Business Park, Mahape, Navi Mumbai, 400 710, India	India
SDL Italia Srl Unipersonale	Via Stradella 165, Roma 00124, Italy	Italy
SDL Luxembourg SAR	HerenGracht 68, Leiden 2312, Luxembourg	Luxembourg
SDL Netherlands BV[1]	Hoogoorddreef 60, 1101 BE Amsterdam, The Netherlands	Netherlands
SDL Poland Sp zoo	Ul. Fordonska 246, 85 766 Bydgoszcz	Poland
SDL Portugal Unipessoal LDA	Rua Julio Dinis, no. 826, 4o Dt., freguesia Cedofeita, Ildefonso, Se, Nicolau, Vitoria, Porto, Portugal	Portugal
SDL Traduceri SRL	Str. Mendeleev nr. 28-30, et. 3, Sector 1, cod postal 010365, Bucharest, Romania J40/5123/2000	Romania
LLC SDL Rus	Ul Zastavskaya Street, 22, "A", 196084 St Petersburg, Russia	Russia
SDL Multi-Lingual Solutions (Singapore) PTE Ltd	138, Cecil Street, #15-00 Cecil Court, Singapore 069538	Singapore
SDL doo Ljubljana	Stegne 21C, Ljubljana	Slovenia
Software Development Language Solutions, Hispania, SL	Calle Goya 8, 28001, Madrid, Spain	Spain

14 Investments in subsidiaries continued

Name of Company	Registered address of business	Country of incorporation
Language Services continued		
Software Documentation Localization Spain, S.L.	Avenida Constitucion, no 20 Edificio La Piramide, Oficina 206, 18012 Granada	Spain
SDL Sweden AB	Fatbursgatan 1, Stockholm, S-118 28 Sweden	Sweden
SDL Turkey Translation Services and Commerce Ltd	Camlica Street Muhurdar Cikmazi (cul de sac) No:2 Beylerbeyi Uskudar 34676 Istanbul	Turkey
SDL Sheffield Limited	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Language Services and Technology		
DL 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
SDL Global Solutions (Ireland) Limited	La Vallee House, Upper Dargle Road, Bray, Co Wicklow	Ireland
SDL Japan K.K.	Nakameguro GT Tower 4f, 2-1-1, Kamimeguro Meguro Tokyo 153-0051 Japan	Japan
SDL Inc	201 Edgewater Drive, Wakefield, MA 01880-12963	USA
SDL XyEnterprise LLC	201 Edgewater Drive, Wakefield, MA 01880-12963	USA
Technology		
SDL Technologies (Australia) Pty Ltd	Nexia Sydney Pty Ltd, Level 16, 1 Market Street, Sydney, NSW 2000	Australia
Alterian do Brazil Software e Servicos Ltda	Avenida Presidente Wilson No. 231, 23rd andar, Rio de Janerio, Brasil	Brazil
SDL Passolo GmbH[1]	Waldburgstrasse 21, 70563, Stuttgart	Germany
Trados GmbH[1]	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Tridion GmbH[1]	Balanstrassse 49, 81669, Munich	Germany
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
SDL Tridion K.K.	Nakameguro GT Tower 4f, 2-1-1, Kamimeguro Meguro Tokyo 153-0051 Japan	Japan
SDL Media Manager BV[1]	Hoogoorddreef 60, 1101 BE Amsterdam, The Netherlands	Netherlands
SDL Xopus BV[1]	Koninginnegracht 12 B-13	Netherlands
Language Weaver SRL	24 Constanta Street, fl. 2-4, Cluj-Napoca Romania, 400157, Romania	Romania
Alterian Pte Ltd	138, Cecil Street, #15-00 Cecil Court, Singapore 069538	Singapore
SDL Tridion Hispania SL	Lopez de Hoyos 35, 1a Planta, 28002 Madrid, Spain	Spain
LLC SDL Ukraine	Business center SP Hall Office 604, 28 A (letter G) Stepana Bandery avenue Kiev, Ukraine 04073	Ukraine
Bemoko Consulting Limited[1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL Tridion Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
XyEnterprise Ltd[1]	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alterian Technology Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL Government Inc	Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle	USA
SDL Technologies (Vietnam) Co Ltd	14th Floor, REE Tower, No. 9 Doan Van Bo Street, ward 12, district 4, Ho Chi Minh City	Vietnam

1 The Group is taking the available exemption from audit for these subsidiaries and further details are provided in note 10 of the Company accounts.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

15 Impairment testing of goodwill and intangibles

Accounting policy

At least annually, or when otherwise required, Directors review the carrying amounts of the Group's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. A full impairment review is performed for goodwill regardless of whether an indicator of impairment exists.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money as well as risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit (CGU) is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the Consolidated Statement of Profit or Loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not beyond the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior-years. A reversal of an impairment loss is recognised immediately as income in the Consolidated Statement of Profit or Loss, although impairment losses relating to goodwill may not be reversed.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its CGUs. Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The Group's CGUs on a recurring basis during the year are unchanged from 2017 and are; Language Services, Language Technologies and Content Technologies. The acquisition of DLS operations have been identified as a separate CGU.

The carrying amount of goodwill had been allocated as follows. As a result of this review, no impairment has been identified.

Carrying amount of goodwill allocated to CGUs	2018 £m	2017 £m
Language Services	**21.1**	21.1
Language Technologies	**59.6**	56.0
Content Technologies	**66.4**	65.0
DLS	**22.3**	–
	169.4	142.1

For the year ended 31 December 2018, the Directors have reviewed the value of goodwill based on internal value in use calculations. The key assumptions for these calculations are discount rates and growth rates. The Group prepares cash flow forecasts derived from the Directors' most recent financial forecasts for the following three years based on a Board approved three year plan. The growth rates for the three-year period are based on Directors expectations of the medium-term operating performance of the CGU, planned growth in market share, industry forecasts, growth in the market and specific regional considerations and are in line with past experience. Discount rates have been estimated based on rates that reflect current market assessments of the Group's weighted average cost of capital.

15 Impairment testing of goodwill continued

The key assumptions used in the assessments in the year ended 31 December 2018 are as follows:

Assumptions applied	Pre tax discount rate 2018 %	Pre tax discount rate 2017 %
Language Services	**13.7**	12.7
Language Technologies	**14.6**	13.4
Content Technologies	**15.1**	13.4
DLS	**14.3**	–

	2018 %	2017 %
Group cost of capital	**11.2**	9.9
Perpetual growth rate applied to all CGUs	**1.8**	2.0
Average growth rates for years one - three		
Language Services	**6.9**	5.0
Language Technologies	**5.7**	6.0
Content Technologies	**6.8**	6.0
DLS	**10.6**	–
Year four and five growth rates		
Language Services	**6.0**	6.0
Language Technologies	**6.5**	6.5
Content Technologies	**8.5**	8.5
DLS	**6.0**	–

Sensitivity to changes in assumptions

Management has identified two key assumptions which could significantly impact the impairment test: post-tax discount rate and revenue growth applied to each year before perpetuity.

Apart from changes in the post tax discount rates the Directors consider reasonably possible changes in the assumptions above required for the recoverable amount of the Content Technologies, Language Technologies and DLS, operating segments to equal their carrying amounts are shown below:

	Language Technologies	Content Technologies	DLS
Recoverable amounts exceeds carrying amount	£25.8m	£51.1m	£22.1m
Reduction in revenue growth rate in each year	3.6%	5.8%	3.6%
Increase in post-tax discount rate	3.8%	7.0%	4.6%

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

16a Trade and other receivables

Accounting policy

Trade and other receivables are carried at amortised cost less expected credit losses. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers and geographies.

Accrued income assets relate to the Group's rights to consideration for work completed but not billed at the reporting date for language and professional services. Accrued income balances are transferred to trade receivables when an invoice is issued to the customer.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

16a Trade and other receivables continued

Trade and other receivables due within one year

	2018 £m	2017 £m
Trade receivables	**83.6**	62.9
Less: expected credit losses	**(3.6)**	(1.7)
Trade receivables – net	**80.0**	61.2
Prepayments and other receivables	**11.9**	10.8
Accrued income	**16.4**	13.4
Trade and other receivables due within one year	**108.3**	85.4
Other receivables due after one year	**2.4**	1.9

All amounts are due within one year. Trade receivables are non-interest bearing and on average have 30 to 90 day settlement terms. Accrued income is the value of unbilled work recognised on projects in accordance with the accounting policy outlined above.

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
2018	**80.0**	**53.2**	**10.2**	**5.1**	**11.5**
2017	61.2	42.8	11.5	2.7	4.2

The Group typically operates with large multinational customers and hence credit risk is generally low. The majority of the impairment provision is recorded against amounts greater than 60 days in 2018 and 2017. The Group's collection history suggests no additional impairment provision is deemed necessary.

Provision for impairment

The amount of accrued income during the period ended 31 December 2018 was impacted by an impairment charge of £0.1m (2017: £0.4m).

As at 31 December 2018, trade receivables at nominal value of £3.6m (2017: £1.7m) were impaired and provided for. Movements in the provision for impairment of receivables were as follows:

	Total £m
At 1 January 2017	1.6
Charge for the year	0.2
Utilised in the year	(0.1)
Currency adjustment	–
At 31 December 2017	1.7
On acquisition	1.3
Charge for the year	0.6
Utilised in the year	–
Currency adjustment	–
At 31 December 2018	**3.6**

16b Trade and other receivables

Accounting policy

Capitalised contract costs primarily relate to sales commission costs capitalised under IFRS 15 and are amortised over the length of the contract.

Capitalised contract costs	2018 £m	2017 £m
Capitalised contract costs (over one year)	**0.8**	1.3
Capitalised contract costs (less than one year)	**1.9**	1.6
Total capitalised contract costs	**2.7**	2.9

No impairment has been recognised in respect of capitalised contract costs (2017: £nil). The amount of amortisation recognised through the profit and loss statement is £0.9m (2017: £0.9m).

17 Trade and other payables

	2018 £m	2017 £m
Trade and other payables due within one year		
Trade and other payables	**10.4**	8.1
Other taxes and social security costs	**3.6**	1.7
Other payables	**4.8**	9.9
Accruals	**46.5**	21.0
Deferred income	**39.8**	37.3
	105.1	78.0
Trade and other payables due after one year		
Deferred income	**0.7**	0.7

18 Cash and borrowings

Cash

	2018 £m	2017 £m
Cash at bank	**19.8**	22.7

The fair value of cash and cash equivalents is £19.8m (2017: £22.7m). Restricted cash at 31 December 2018 was £0.3m (2017: £0.1m).

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Net cash	2018 £m	2017 £m
Cash and cash equivalents	**19.8**	22.7
Borrowings	**(5.4)**	–
Net cash	**14.4**	22.7

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

18 Cash and borrowings continued

Borrowings

On 3 August 2015, the Group signed a five year £25m revolving credit facility, expiring on 2 August 2020. This facility was cancelled on 20 July 2018 and on the same day, the Group signed a five year £120m syndicate revolving credit facility, expiring on 19 July 2023. The agreement includes a £50m Accordion (uncommitted) facility. At 31 December 2018, £5.4m was drawn on the facility (2017: £nil). This amount was fully settled subsequent to the year end.

Draw downs under the £70m committed 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 2.15% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation and amortisation.

Movement in debt	2018 £m	2017 £m
At 1 January	**–**	–
Proceeds from borrowings	**19.6**	–
Repayment of borrowings	**(14.4)**	–
Cashflows	**–**	–
Exchange movements	**0.2**	–
At 31 December	**5.4**	–

19 Provisions

Accounting policy

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of 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 is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. The expense relating to any provision is presented in the Consolidated Statement of Profit or Loss net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance expense.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. For the purpose of calculating any onerous lease provision, the Group takes the discounted future lease payments (if any), net of expected rental income. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

	Property leases £m	Tax related £m	Total £m
At 1 January 2018	2.0	2.5	4.5
Net charge to income statement	0.6	0.6	1.2
Release during the year	(0.1)	(0.2)	(0.3)
Utilised during the year	(0.9)	(0.5)	(1.4)
At 31 December 2018	**1.6**	**2.4**	**4.0**
Current 2018	**0.5**	**0.2**	**0.7**
Non current 2018	**1.1**	**2.2**	**3.3**
Current 2017	0.8	0.8	1.6
Non current 2017	1.2	1.7	2.9

19 Provisions continued

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 and provision for dilapidation costs associated with the Group's property leases. Non current obligations are payable within a range of one to five years (£0.3m, 2017: £0.4m) and over five years (£0.8m, 2017: £0.8m). Amounts provided are management's best estimate of the likely future cash outflows.

Tax related

Tax provisions relate to indirect and payroll tax assessments in a number of locations around the world. The Group is appealing a number of assessments raised by local authorities and amounts will be paid following the completion of these appeals processes. It is expected that these amounts will be payable within a range of one to five years. Amounts provided are management's best estimate of the likely future cash outflows.

20 Share capital

Allotted, called up and fully paid	2018 Millions	2017 Millions	2018 £m	2017 £m
Ordinary shares of 1p each				
At 1 January	**82.3**	81.5	**0.8**	0.8
– Issued on exercise of share options	**0.1**	0.4	**–**	–
– Issued on exercise of LTIPs	**–**	0.3	**–**	–
– Issued on placing	**8.2**	0.0	**0.1**	
– Issued as payment of contingent consideration	**–**	0.1	**–**	–
– At 31 December	**90.6**	82.3	**0.9**	0.8

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

1. 55,328 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (1999) and SDL Share Option Scheme (2010) at a price range of 278.92p to 333.5p per share for an aggregate consideration of £158,238.
2. 78,778 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £260,214.
3. 23,404 ordinary shares of 1p were allotted under the SDL LTIP 2011 Scheme.
4. 8,234,400 ordinary shares of 1p were placed at a price of 440p per share and issued on 18 July 2018 for a consideration of £36,231,360. Fees of £1.2m have been deducted from share premium.

The following movements in the ordinary share capital of the company occurred during 2017:

5. 120,287 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 278.92p to 333.5p per share for an aggregate consideration of £380,555.
6. 303,515 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £773,343.
7. In March 2017 and December 2017 a total of 81,244 ordinary shares of 1p each were allotted to Gype BV as the second and final payment of the contingent consideration due as a result of the acquisition of Gype BV in 2015.
8. 283,500 ordinary shares of 1p were allotted under the SDL LTIP 2011 Scheme.

Reserves

Share premium

The share premium account represents the premium arising on the issue of equity shares.

Translation reserve

The translation reserve includes balances arising on the translation of the Group's foreign operations.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2018

21 Share-based payment plans

Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding long-term incentive plans (LTIPs) are subject to some non-market performance conditions. These include EPS growth. The element of the income statement charge relating to market performance conditions is fixed at the grant date. At the end of the reporting period, the Group revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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. 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.

Included within administrative expenses is a charge of £1.9m relating to the Group's employee share schemes (2017: charge of £0.2m). Of this amount, a charge of £0.1m has been recognised within exceptional costs. Details of the Group's principal employee share schemes are set out below.

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.

21 Share-based payment plans continued

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 methodology for each performance criteria as is considered 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 the model used in the year of grant:

	2018 Monte Carlo	2018 Black-Scholes	2017 Monte Carlo	2017 Black-Scholes
Expected volatility	**36.4%**	**36.4%**	26%	26%
Weighted average fair value at grant date (pence)	**248p**	**496p**	397p	545p
Expected life	**3 years**	**3 years**	3 years	3 years
Expected dividends	**1.5%**	**1.5%**	1.10%	1.10%
Risk-free interest rate	**0.92%**	**0.92%**	0.11%	0.11%

	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Outstanding at the beginning of the year	**1,985,287**	**£0.01**	1,397,104	£0.01
Granted during the year	**1,483,945**	**£0.01**	1,035,706	£0.01
Exercised during the year	**–**	**£0.01**	(283,500)	£0.01
Forfeited during the year	**(427,661)**	**£0.01**	(164,023)	£0.01
Outstanding at the end of the year	**3,041,571**	**£0.01**	1,985,287	£0.01
Exercisable at 31 December	**44,192**		288,411	

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

22 Commitments and contingencies

Accounting policy

Leases

The Group have no finance leases. All leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

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	
	2018 £m	Restated 2017 £m	2018 £m	2017 £m	2018 £m	Restated 2017 £m
Within one year	**7.9**	4.3	**0.7**	0.5	**8.6**	4.8
After one year but not more than five years	**20.0**	10.0	**0.7**	1.1	**20.2**	11.1
More than five years	**12.9**	12.9	**–**	–	**12.9**	12.9
	40.8	27.2	**1.4**	1.6	**42.2**	28.8

Notes to Consolidated Financial Statements continued
for the year ended 31 December 2018

22 Commitments and contingencies continued
The future minimum rentals receivable under non-cancellable operating leases as at 31 December 2018 were £0.2m (2017: £0.2m).

As detailed in note 9, the nature of global tax compliance in inherently subject to interpretation and hence additional liabilities or exposures could arise.

23 Related party disclosures
Compensation of key management personnel of the Group

	2018 £m	2017 £m
Salary and benefits	**1.2**	1.3
Pension cost	**0.1**	0.1
Total compensation paid to key management personnel	**1.3**	1.4

In addition to the amounts above £0.2m has been paid to XWFD Limited for CFO services, a company beneficially owned by Xenia Walters, the Group's CFO (2017: £0.2m) prior to her appointment as CFO on 1 April 2018.

Full details of the Directors' remuneration is included in the Directors' Remuneration Report on pages 88 to 109.

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 planning, directing and controlling the activities of the Group.

24 Financial risk management objectives and policies
An explanation of the Group's financial risk management objectives, policies and strategies are set out in the Strategic Report on pages 60 to 63.

Interest Rate Risk
Net cash has decreased from £22.7m in 2017 to £14.4m in 2018. Borrowings were £5.4m (2017: £nil). The Group has access to a committed facility of £70m which bears interest at LIBOR+ margin when drawn, the margin varying between 1.15% and 2.15% 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 US Dollar, 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 low level 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 2018, the Group had net cash of £14.4m after deductions financing liabilities of £5.4m. 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 19 July 2023.

Foreign currency risk
A significant amount of business is done with customers in both the USA and Continental Europe with approximately 50% of total invoicing done in US Dollar and 25% 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.

24 Financial risk management objectives and policies continued

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 2018, the Group has no hedges outstanding.

In addition, the subsidiaries of the Group have 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 Group has exposure on the balance sheet from the retranslation of the net assets of any non Sterling functional currency subsidiaries into UK Sterling for consolidation purposes. The subsidiaries within the Group that have intercompany loan and trading relationships held in non-functional currency can have an impact on net profitability where the intercompany relationships are not treated for accounting purposes as equity loans.

The income statement for subsidiaries are also affected by movements in the US Dollar/Sterling and Euro/Sterling exchange rates when sales to customers in non functional currencies are converted to functional currencies 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 functional currency from month to month.

The following table demonstrates the trading and translation sensitivity to a 1% change in the US Dollar exchange rate.

	2018 £m	2017 £m
Profit before tax gain / (loss)		
+ 1%	**(1.1)**	(0.6)
- 1%	**1.1**	0.6
Statement of Financial Position[1] increase / (decrease) in net assets		
+ 1%	**(0.8)**	(0.4)
- 1%	**0.8**	0.4

The following table demonstrates the trading and translation sensitivity to a 1% change in the Euro exchange rate.

	2018 £m	2017 £m
Profit before tax gain / (loss)		
+ 1%	**0.2**	(0.3)
- 1%	**(0.2)**	0.3
Statement of Financial Position[1] increase / (decrease) in net assets		
+ 1%	**(1.3)**	(0.8)
- 1%	**1.3**	0.8

1. Based on the Statement of Financial Position at 31 December.

Economic conditions – credit control risk

The Group continues to benefit from a diverse list of major clients of which no client contributes more than 10% 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 2018 of 7 pence per share. Neither the Company nor the Group is subject to externally imposed capital requirements.

Notes to Consolidated Financial Statements continued
for the year ended 31 December 2018

25 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:

Floating rate	2018 £m	2017 £m
Cash	**1.0**	0.8

Maturity of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018:

	Less than 12 months £m	Over 12 months £m	Total £m
2018			
Trade and other payables	**65.4**	**–**	**65.4**
Borrowings	**–**	**5.4**	**5.4**
Total	**65.4**	**5.4**	**70.8**
2017			
Trade and other payables	40.7	–	40.7
Borrowings	–	–	–
Total	40.7	–	40.7

The above tables exclude provisions and deferred income.

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

Credit risk

The maximum credit risk exposure related to financial assets is £96.4m (2017: £72.0m) represented by the carrying value of trade receivables and accrued income.

Fair values of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair value. 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 2018 (2017: None).

The interest rate risk on the borrowings at 31 December 2018 is directly linked to the one, three month and six month LIBOR and is set out on page 160. The interest rates that the Group would pay under the facilities are linked directly to these LIBOR rates.

26 Events after the Statement of Financial Position date

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

27 Acquisition of Donnelley Language Solutions

On 23 July 2018, the Group acquired the Donnelley Language Solutions (DLS) business for cash consideration of $77.8m. The acquisition was funded by internal cash resources, an equity placing which raised £36.2m (£35.0m net of fees) and a £19.6m ($25.6m) drawdown under the Group's new banking facility (see note 18).

Acquisition-related costs

The Group incurred acquisition-related costs of £2.3m on legal fees and due diligence costs. These costs have been included in exceptional items within 'administrative expenses' (note 7).

27 Acquisition of Donnelley Language Solutions continued

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

Fair value of identifiable net assets acquired	Note	Fair value £m
Property, plant and equipment	12	0.4
Intangible assets – customer relationships	13	30.1
Intangible assets – intellectual property	13	4.3
Trade and other receivables	16a	14.0
Cash and cash equivalents	18	0.2
Trade and other payables		(6.6)
Deferred tax		(5.3)
		37.1
Goodwill		22.3
Total consideration		59.4
Satisfied by cash		59.4
Cash flow:		
Total consideration		59.4
Cash included in undertaking acquired		0.2
Net cash consideration in cash flow statement		59.2

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the assembled workforce of the acquired entity, the Company's ability to attain new customers going forwards and the value of intangible assets beyond their estimated useful lives.

For the five months ended 31 December 2018, DLS contributed revenue of £27.8m and profit before tax of £1.8m to the Group's results.

If the acquisition had occurred on 1 January 2018, management estimates that DLS revenue would have been £61.0m, and DLS profit before tax for the year would have been £1.3m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Measurement of fair values

The fair value of DLS's intangible assets (technology intellectual property and customer relationships) has been measured by an independent valuer.

Trade receivables comprise gross contractual amounts due of £9.5m, of which £0.8m was expected to be uncollectable at the date of acquisition and has been provided within these financial statements.

Accrued income assets relate to rights to consideration for work completed but not billed at the reporting date for language and professional services. A provision for impairment of £0.1m against these balances at the date of acquisition has been recognised.

An adjustment to recognise a holiday pay accrual, in line with Group policy, of £0.4m has been recognised at the date of acquisition.

Deferred income has been restated to its fair value of the Group's services obligation at the date of acquisition.

Acquired assets and liabilities remain provisional pending the final determination of sale and purchase agreement mechanisms in relation to the fair value of liabilities acquired.

Company Balance Sheet

at 31 December 2018

	Notes	2018 £m	Restated [1] 2017 £m
Fixed assets			
Tangible assets	2	**4.3**	4.3
Intangible assets	3	**12.4**	7.1
Investment in subsidiaries	4	**224.9**	222.6
		241.6	234.0
Current assets			
Debtors	5	**172.6**	117.6
Cash at bank and in hand		**8.2**	8.2
		180.8	125.8
Current liabilities			
Creditors: amounts falling due within one year	6	**(219.8)**	(186.9)
		(219.8)	(186.9)
Net current liabilities		**(39.0)**	(61.1)
Total assets less current liabilities		**202.6**	172.9
Creditors: amounts falling due after more than one year			
Other payables	8	**(0.3)**	(0.1)
Provisions for liabilities and charges	9	**(0.8)**	(0.9)
		201.5	171.9
Capital and reserves			
Called up share capital		**0.9**	0.8
Share premium account		**136.0**	100.7
Profit and loss account		**64.6**	70.4
Total equity		**201.5**	171.9

1 Restated for the impact of IFRS 15, see note 1.

Approved by the Board of Directors on 20 March 2019.

Adolfo Hernandez
Xenia Walters
Directors

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £m	Share premium account £m	Income statement £m	Total £m
At 1 January 2017	**0.8**	**99.2**	**97.2**	**197.2**
IFRS 15 adjustment	–	–	0.3	0.3
At 1 January 2017 restated [1]	**0.8**	**99.2**	**97.5**	**197.5**
Loss for the period	–	–	(22.3)	(22.3)
Dividend paid	–	–	(5.1)	(5.1)
Currency translation differences on net investments	–	–	0.4	0.4
Arising on share issues	–	1.5	–	1.5
Share-based payments	–	–	0.2	0.2
At 1 January 2018	**0.8**	**100.7**	**70.7**	**172.2**
Loss for the period	–	–	(3.2)	(3.2)
Dividend paid	–	–	(5.1)	(5.1)
Currency translation differences on net investments	–	–	0.4	0.4
Arising on share issues	0.1	35.3	–	35.4
Share-based payments	–	–	1.9	1.9
Share-based payments (deferred tax)	–	–	(0.1)	(0.1)
At 31 December 2018	**0.9**	**136.0**	**64.6**	**201.5**

1 Restated for the impact of IFRS 15, see note 2.

At 31 December 2018 the Company had distributable reserves of £58.7m (2017: £63.6m).

Notes to the accounts
for the year ended 31 December 2018

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

Basis of preparation
The financial statements are prepared under the historical cost convention as modified for certain items which have been measured at fair value, namely financial instruments. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

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

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

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

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

Going concern
The Directors have prepared cash flow forecasts for a period of (at least 12) months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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 10 years or the lease term straight line
Computer equipment	4-5 years straight line
Fixtures and fittings	20% reducing balance
Motor vehicles	20% reducing balance

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

1 Accounting policies continued

Foreign currencies

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

Financial instruments

The Company considers the use of forward foreign currency contracts and interest rate swaps to reduce exposure to foreign exchange and interest rates. Where such instruments are taken out, they are stated at fair value. Gains and losses arising from changes in fair value are taken to the profit and loss account in the period.

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

Debtors

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

Creditors

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

Interest bearing loans and borrowings

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

Cash

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

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. Operating lease income is credited to the profit and loss account on a straight line basis over the period of the lease.

Incentives received from landlord

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

Pension cost

The Company contributes to a Group personal pension scheme for qualifying employees whereby it makes defined contributions to independently administered personal pension schemes. The Company does not control any of the assets or have any ongoing liabilities with regard to the performance of and payments from these individual personal schemes. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Research and development

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised when its future recoverability can reasonably be regarded as assured and technical feasibility and commercial viability can be demonstrated. Where these criteria are not met the expenditure is expensed to the income statement.

IFRS 15

The Group has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2017. As a result, the Group has changed its accounting policies and updated its internal processes and controls relating to revenue recognition.

The Group has applied IFRS 15 using the fully retrospective method – i.e. applying IFRS 15 as though it had been in effect from 1 January 2017 resulting in a restatement of the comparative information and recognizing the effect of initially applying IFRS at 1 January 2018 as an adjustment to the opening balance of equity at 1 January 2017.

Notes to the accounts continued

for the year ended 31 December 2018

1 Accounting policies continued

IFRS 15 provides a single, principles based five step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods and services.

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations.

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.

The Group's language services contracts provide for the Group to be reimbursed for work as it is undertaken. Accordingly the Group will continue to recognise revenue over time, on a percentage of completion basis. The Group's professional services work is carried out either carried out on a time and materials basis, where revenue is recognised at a point in time as the work is performed or on a fixed price basis where revenue is recognised over time, on a percentage of completion basis.

Sale of goods

Revenue from the sale of goods is recognised when it transfers control over a product to a customer.

The Group's software licences are either perpetual, term or Software as a Service (SaaS) in nature.

Revenue on perpetual and term licences, where there is no significant future vendor obligation, is recognised on delivery, less an allowance for future costs. SaaS, support and maintenance and hosting contracts have material ongoing future performance obligations associated with them and hence revenue is recognised over time. These policies are in line with the Group's current accounting policies with the exception of the treatment of term licences.

In circumstances where a considerable future vendor obligation exist as part of a software licence and related services contract, 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 is recognised in full on delivery to the customer. The fair value of the support and maintenance element of these contracts is carved out and recognised over the support and maintenance and hosting service periods.

Previously, under IAS 18, in circumstances where a considerable future vendor obligation existed as part of a software licence and related services contract, the Group recognised revenue over the period that the obligation exists per the contract.

Contract assets

IFRS 15 requires the deferral of direct costs relating to the sale of goods or services to be recognised in line with the revenue for those contracts. The Group has determined that these direct costs will be recognised over the contracted term of the contract, as additional renewal commissions are payable for future contract extensions.

The following disclosures show the impact of IFRS 15 on the Company's financial statements.

1 Accounting policies continued

The Company has made adjustments to its opening balance sheet at 1 January 2017 and to its balance sheet at 31 December 2017 to reduce deferred income by £0.4m and to increase deferred tax liabilities by £0.1m with a consequential £0.3m increase in retained earnings and net assets. These adjustments reflect the recognition of term licences at a point in time rather than over time.

There has been no impact on the Company balance sheet or profit and loss account in the prior period arising from the capitalisation of costs to obtain contracts.

There has been no impact to the Company's result for the year ended 31 December 2017 arising from the adoption of IFRS 15.

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) prorated to the extent that the services of the employee have been rendered over the vesting period. If this amount exceeds the cumulative amount of the remuneration expense at the statutory rate, the excess is recorded directly in equity, against retained earnings.

Similarly, current tax relief in excess of the cumulative amount of the remuneration expense at the statutory rate is also recorded in 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.

Notes to the accounts continued
for the year ended 31 December 2018

1 Accounting policies continued

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

Investments in subsidiaries

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

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

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

Provisions

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

Share-based payments

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

Equity-settled transactions

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

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

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.

Significant critical accounting judgements, estimates and assumptions

Revenue – licence technology revenue

Technology revenue includes licenced software and related services. Where software is sold as a 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 performance regulation. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. Licence revenue in the year amounted to £2.0m in 2018 (2017: £1.4m).

Impairment

The determination of whether or not investment balances have been impaired requires an estimate to be made of the value in use of the investment. The value in use calculation includes estimates about the future financial performance of the investment, management's estimates of discount rates, long-term operating margins and long-term growth rates. If the results of the investment in a future period are materially adverse to the estimates used for the impairment testing, an impairment charge may be triggered.

2 Tangible fixed assets

	Leasehold improvements £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2018	2.0	4.6	0.2	6.8
Additions	0.1	0.6	0.2	0.9
Transfers	0.6	(0.6)	–	–
Disposal	–	(1.3)	–	(1.3)
At 31 December 2018	**2.7**	**3.3**	**0.4**	**6.4**
Depreciation				
At 1 January 2018	(0.1)	(2.3)	(0.1)	(2.5)
Provided during the year	(0.3)	(0.6)	–	(0.9)
Disposal	–	1.3	–	1.3
At 31 December 2018	**(0.4)**	**(1.6)**	**(0.1)**	**(2.1)**
Net book value				
At 31 December 2018	**2.3**	**1.7**	**0.3**	**4.3**
At 31 December 2017	1.9	2.3	0.1	4.3

3 Intangible fixed assets

	Research and development £m	Software development £m	Total £m
Cost			
At 1 January 2018	–	7.1	7.1
Additions	2.4	4.6	7.0
Transfers	–	(0.4)	(0.4)
At 31 December 2018	**2.4**	**11.3**	**13.7**
Amortisation			
At 1 January 2018	–	–	–
Provided during the year	0.4	1.3	1.7
Disposals	–	(0.4)	(0.4)
At 31 December 2018	**0.4**	**0.9**	**1.3**
Net book value			
At 31 December 2018	**2.0**	**10.4**	**12.4**
At 31 December 2017	–	7.1	7.1

4 Investment 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 14 of the Group financial statements.

At 1 January 2018	222.6
Increase in investments	2.3
At 31 December 2018	**224.9**

Notes to the accounts continued
for the year ended 31 December 2018

5 Debtors

Debtors: amounts falling due within one year	2018 £m	2017 £m
Trade debtors	**8.8**	8.2
Amounts owed by Group undertakings (including £41.0m falling due after more than one year, 2017: £36.3m)	**155.2**	60.2
Corporation tax	**0.5**	1.5
Deferred tax asset	**0.3**	5.5
Prepayments	**5.8**	4.0
Accrued income	**1.9**	1.5
Rent and other deposits	**0.1**	0.4
	172.6	81.3

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

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

	Recognised 2018 £m	Unrecognised 2018 £m	Recognised 2017 £m	Unrecognised 2017 £m
Depreciation in advance of capital allowances	**–**	**–**	0.6	–
Other short-term temporary differences	**–**	**–**	0.1	–
Share-based payments	**0.3**	**–**	0.5	–
Tax losses	**–**	**–**	4.3	–
Net deferred income tax asset	**0.3**	**–**	5.5	–

Reconciliation of movement on deferred tax asset	2018 £m	2017 £m
At 1 January	**5.5**	2.3
Temporary differences arising in the period (see note 9, Group accounts)	**(5.2)**	3.2
Deferred tax asset at 31 December	**0.3**	5.5

6 Creditors

Creditors: amounts falling due within one year	2018 £m	2017 £m
Trade creditors	**3.6**	3.9
Amounts owed to Group undertakings	**194.4**	171.6
Corporation tax	**2.3**	–
Other taxes and social security costs	**0.7**	0.6
Other creditors	**0.6**	0.3
Accruals	**12.4**	5.4
Deferred income	**5.8**	5.1
	219.8	186.9

7 Interest bearing loans and borrowings

For details of the Group's borrowings please see note 18 of the Group financial statements.

8 Creditors

Creditors: amounts falling due after more than one year	2018 £m	2017 £m
Other payables	**0.3**	0.1

9 Provisions for liabilities and charges

	2018 £m	2017 £m
Property leases	**0.8**	0.9

Movement in provisions:

	Provision 1 January 2018 £m	Arising during the year £m	Released during the year £m	Utilised during the year £m	Provision 31 December 2018 £m
Property leases	0.9	–	–	(0.1)	**0.8**

Property leases

The provision for property leases is in respect of leasehold premises, from which the Company no longer trades, but is liable to fulfil rent and other property commitments up to the lease expiry dates and provision for dilapidation costs associated with the Company's new UK property lease. Obligations are payable within a range of one to five years (£0.2m, 2017: £0.3m) and greater than five years (£0.6m, 2017: £0.6m). Amounts provided are management's best estimate of the likely future cash outflows. The provision has been discounted using market interest rates.

10 Commitments and contingencies

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

Land and buildings	2018 £m	2017 £m
Within one year	**1.2**	0.9
After one year but not more than five years	**4.0**	3.5
More than five years	**6.8**	8.6
	12.0	13.0

As per note 14, SDL plc has taken the audit exemption for a number of subsidiaries by virtue of s479A of the Companies Act. A Parent Company guarantee has been provided for these entities under s479c of the Companies Act.

11 Share-based payment plans

During 2018, the total share-based payment charge amounted to £1.9m (2017: £0.2m). The Company has taken the exemption available under FRS 101 available in respect of disclosures relating to IFRS 2 Share-based Payments in respect of Group settled payments.

Notes to the accounts continued

for the year ended 31 December 2018

12 Profit attributable to members of the Parent Company

The loss dealt with in the financial statements of the Parent Company is £3.2m (2017 restated: loss of £22.3m). 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 known events occurring after the statement of financial position date that require disclosure.

Alternative Performance Measures (APMs)

The Group presents various APMs as the Directors believe that these are useful for the users of the financial statements in helping to provide a balanced view of, and relevant information on, the Groups financial performance.

Measure / description	Why we use it
Adjusted Adjusted measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: – Amortisation of acquired intangible assets; – Exceptional items that in management's judgement should be disclosed separately (see note 7) by virtue of their size, nature or incidence.	Adjusted measures allow management and investors to compare performance without exceptional items or non-operational items.
Constant currency Prior period underlying measures, including revenue are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Constant currency measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements.
Organic In addition to the adjustments made for adjusted measures, organic measures exclude the contribution from discontinued operations and acquired businesses during the period and the impact of foreign exchange.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Adjusted operating profit Defined as operating profit excluding exceptional items and amortisation of acquired intangibles. A reconciliation of adjusted profit to operating profit on the consolidated statement of profit or loss.	As a measure of operating profit excluding major non-cash items.
Free cash flow Cash flow from adjusted operating activities less maintenance capital expenditure, research and development costs, cash interest and cash tax paid. A reconciliation of free cash flow is included within the CFO review.	As an indicator of the ability of the company to turn revenue into cash and therefore the quality of revenue.
Adjusted EPS The adjusted EPS is EPS adjusted for the impact of disposals by excluding current and prior period disposals, exceptional items, the impact of amortisation on acquired intangibles and the impact of exceptional tax charges or credits. A reconcilliation of adjusted EPS to EPS is provided on note 9.	The adjusted EPS measure allows management and investors to compare performance without the distorting effects arising from significant acquisitions, disposals and the impact of exceptional tax charges or credits.
Annual Recurring Revenue (ARR) Annualised recurring revenue (ARR) is the normalised reported recurring revenue in the last month of the reporting period, annualised. ARR for our technology businesses consists of SaaS licence, hosting and support and maintenance revenues. The ARR calculation has been restated for IFRS 15 and excludes the licence element of term contracts.	As a forward looking revenue measure that represents the annualised value of that part of the current revenue base will be carried into future periods.

Continued over page

APMs continued

Measure / description	Why we use it
Annual Recurring Contract Value (ARCV) Annual Recurring Contract Value (ARCV) is the amount of revenue recognised in the last month of the reporting period, annualised and generated from technology related subscription contracts (SaaS, hosting and support and maintenance) and term contracts.	As a measure of new recurring bookings that can be compared across different contract durations (monthly, annual, multi-year) and types (maintenance and subscription).
Contractual Recurring Software Revenue (CRSR) Contractual Recurring Software Revenue (CRSR) is defined as SaaS, support, maintenance and hosting revenues as a percentage of total technology revenues.	As a measure of technology revenue which is recurring.

Five year Group summary

for the year ended 31 December 2018

	IFRS 2018 £m	Restated [1] IFRS 2017 £m	IFRS 2016 £m	IFRS 2015 £m	IFRS 2014 £m
Turnover	**323.3**	289.2	289.9	266.9	260.4
Continuing turnover	**323.3**	287.2	264.7	240.5	n/a
Growth in continuing revenue	**13%**	9%	10%	n/a	n/a
Operating profit before tax, exceptional items and amortisation	**29.0**	19.0	23.5	20.7	21.5
Continuing operating profit before tax, exceptional items and amortisation	**29.0**	24.0	27.0	24.3	n/a
Operating profit / (loss)	**18.9**	17.0	5.2	(25.1)	9.7
Profit / (loss) before tax	**18.4**	29.9	(15.8)	(25.2)	9.4
Profit / (loss) after tax	**14.8**	28.5	(18.1)	(30.7)	6.6
Non current assets	**244.1**	175.6	167.6	177.0	210.0
Cash and cash equivalents	**19.8**	22.7	21.3	17.2	22.1
Current assets less current liabilities	**19.6**	17.5	5.9	(0.6)	(8.7)
Total assets less current liabilities	**263.7**	193.1	173.5	176.4	208.3
Equity interests	**245.6**	189.1	168.7	166.9	202.1
Average number of employees (thousand)	**3.8**	3.6	3.6	3.5	3.2
Earnings per share – basic	**17.2p**	36.8p	(22.3)p	(37.9)p	8.0p

1 Restated for the impact of IFRS 15, see note 2.

Company information

Financial calendar

Annual General Meeting

Dividend payment	7 May 2019
Final payable – year ended 31 December 2018	10 June 2019

Results announcements	
Interim results – period ending 30 June 2019	6 August 2019
Final results – year ending 31 December 2019	TBC March 2020

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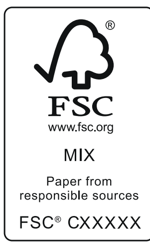
Investor enquiries

Enquiries can be directed via our website – follow the 'Contact us' link.



A high-white premium recycled range, made from a minimum of 50% recycled fibres, Digigreen has FSC® Mix Credit certification, European Ecolabel accreditation and the NAPM 50% label rating

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