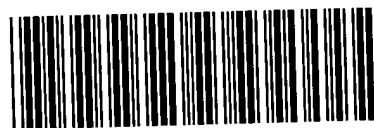


**SDL Limited (formerly SDL Plc)**  
**Annual Report and Financial Statements**

**For the year ended 31 December 2020**

**Registered Number: 02675207**

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## CONTENTS

<b>Strategic Report</b>	
Overview and performance summary	3
Financial review	9
Directors' duties	12
Principal risks and uncertainties	14
Corporate social responsibilities	16
Non-financial information statement	20
<b>Corporate Governance</b>	
Corporate Governance	21
Directors Report & Board of Directors	21
Statement of Directors Responsibilities	24
<b>Financial Statements</b>	
Independent Auditors Report	25
Consolidated Statement of Profit or Loss	28
Consolidated Statement of Other Comprehensive Income	29
Consolidated Statement of Financial Position	30
Consolidated Statement of Changes in Equity	31
Consolidated Statement of Cash Flows	32
Notes to the Consolidated Accounts	33
Company Statement of Financial Position	65
Consolidated Statement of Changes in Equity	66
Notes to the Company Accounts	67
Alternative Performance Measures	78
<b>Company information</b>	<b>80</b>

## Strategic Report

### Overview and performance summary

#### Summary

On 27 August 2020, the Group announced that it had reached agreement with RWS Holdings Plc ('RWS') for an all share combination, pursuant to which RWS acquired the entire issued and to be issued share capital of SDL by means of a court-sanctioned scheme of arrangement which became effective on 4 November 2020.

The Directors of the former board resigned on 4 November 2020 and were replaced by Richard Thompson, Chief Executive Officer and Des Glass, Chief Financial Officer.

The enlarged RWS Group combines RWS's specialist technical language services with SDL's leading language technology expertise and created the world's leading language services and technology group, with over 7,000 employees and global coverage. The successful integration of SDL's operations into the RWS Group will be management's key focus in the year ahead.

#### Financial performance

Financial performance was impacted by COVID-19, with Group revenue down 2% to £368.5m (2019: £376.3m). Stronger Language Services revenues in sectors such as corporate communications and Life Sciences have offset weaker areas such as Marketing Solutions, travel, leisure, manufacturing and automotive.

Group adjusted operating profit<sup>1</sup> was £33.0m (2019: £37.2m), down 11% year on year. Operating profit on a statutory basis was £11.3m (2019: £29.7m), down 62% principally due to the recognition of £19.2m exceptional items relating to the all-share combination with RWS. Exceptional items include the professional fees incurred in relation to the deal, accelerated IFRS 2 charges and severance costs associated with previous management and the impairment of prepaid costs for the Group's RCF which has been replaced by the RCF with the new parent company. Further disclosure of exceptional items is provided in note 6.

#### Response to COVID-19

As regions and countries went into lockdown throughout January to March, SDL rolled out its business continuity strategy globally, and remained fully operational throughout the period. The ability to move 4,500 employees to home-working was testament to the investments in IT infrastructure made in recent years, but also thanks to an incredible response from SDL's teams. Although some colleagues have voluntarily returned to offices in certain locations, the majority are expected to continue working from home throughout the remainder of 2021. The Group has modified its offices to keep employees safe and to comply with all social distancing and local regulatory requirements.

SDL's sales teams have adapted quickly to the new selling landscape. SDL's strategy has been to increase focus on stable or growing segments of the market, cross-selling and account development, and fast on-boarding of new wins, whilst also continuing to support those customers with tightened budgets with cost-saving approaches or new delivery models, including Business Process Outsourcing (BPO) to enable customers to fill their resourcing gaps. A highly customer-centric approach has been more important than ever and has borne fruit in very positive customer feedback about SDL's delivery during this period.

The commercial team structure was adapted to make it more integrated and leaner, with shorter reporting lines to enable faster decision-making whilst not to the detriment of control resilience. As part of the sales evolution programme, the Group has made improvements to processes, tools and training to help sales teams move faster and focus on the right opportunities. Although, like all companies, there is still plenty to be learnt about remote selling models, the shift to more online sales, marketing and events has been broadly successful.

Employee wellbeing has been a major focus and significant efforts have been made to support colleagues in as many ways as possible. The employee survey conducted in May-June provided feedback that 86% of employees feel supported by SDL.

#### Strategy execution update

Despite the significant operational response required to adapt to COVID-19, SDL has continued to execute its core strategic programmes at pace. Indeed, there has been strong alignment between the strategic initiatives in progress and the requirements of the new environment, from the evolution of the go-to-market strategy to product innovation and operational efficiency programmes.

SDL's product teams continued to deliver significant progress in the year and the innovation engine of the Group is now firing. The sales growth of 20% in Machine Translation was a notable highlight of the period, underlining one of the important market shifts underway in the industry. Having released SDL Language Cloud last year, SDL is gaining good traction with its Translation Management System offering and, furthermore, delivered two major product releases powered by Language Cloud: SLATE and SDL Trados Studio 2021.

<sup>1</sup> Adjusted Operating Profit: Operating profit before amortisation of acquired intangibles and exceptional items (as reconciled on the income statement)

## Strategic Report

### Overview and performance summary (continued)

With an increased acceleration in cloud adoption and SDL's cloud portfolio, cloud operations and infrastructure were further strengthened in the year. Within the Content Technologies segment, Tridion Sites 9.5 was released during the second half of 2020. SDL has also begun to review options to accelerate development of its Contenta Publishing Suite to meet identified emerging market opportunities.

SDL has continued its long-term operational efficiency programmes, substantially focused on the automation of Language Services. These actions enabled SDL to meet changing customer demands for higher velocity, small packet translation work, as well as increase gross margin in the period despite slightly lower revenue.

A further development has been understanding the impact of working from home on the Group's operational capability and workforce. Although face-to-face collaboration remains important, it is the Group's view that a substantially larger proportion of its workforce can work from home in future – either full time or part time. (Approximately 5% of SDL employees worked from home prior to COVID-19). The Group previously announced that a future real estate plan had been initiated that will right-size the Group property portfolio over the next five years. The future real estate of the Group will reduce the property portfolio by 25 offices, with a further 9 offices downsized. At the end of February 2021, 7 of these offices have been closed and 3 downsized. The Group remains on track to complete the real estate plan by the end of 2025.

#### Market outlook and pipeline

SDL believes its reputation as a supplier is likely to have been strengthened through its proven ability to deliver reliably throughout the pandemic and the combination with RWS. Several of the key trends that SDL seeks to address are also likely to accelerate, including adoption of Machine Translation, cloud-based technologies, intelligent processes (smart workflows, continuous localisation) and pre-packaged solutions. Customer activity increasingly stabilised in May and June, with some signs of more positive momentum. SDL has a good pipeline for 2021, particularly in its stronger sectors of High Tech and Life Sciences. However, SDL remains alert to the risks of the pandemic impacting customer spending and causing delays to sales cycles and decision-making, particularly with regard to higher margin software sales. Longer term, it is the Group's view that the market opportunity for SDL's products and services remains attractive.

Although financial progress against the long-term plan of achieving 15% adjusted operating margins will inevitably be impacted in the current year, SDL remains confident in its strategy and its ability to deliver its long-term financial goals once markets stabilise further.

## Strategic Report

### Overview and performance summary (continued)

#### Our markets

SDL operates in large, global markets and is privileged to work with many of the world's largest and most successful enterprises and organisations, across a wide range of sectors. Our markets are changing and present both challenges and opportunities, as our customers' requirements become more complex and as traditional localisation activities evolve to be part of strategic content globalisation programmes. We see an increasing focus amongst our competitors on scale and technology but only a small number of Language Service Providers (LSP) have the full-service, global capabilities of SDL. Fewer still have been able to make the necessary investments in technology, including AI, and in other critical areas such as information security. Our goal is to increase our share of market by winning new customers and driving higher revenues from existing customers.

#### Our Strategy

SDL's strategy is to become the leader in content globalisation, by deploying our services and technology platforms to help customers create, translate and deliver their content globally, whatever the purpose of that content, wherever it sits in an organisation and whoever the intended audiences. Helping enterprises and organisations achieve this content digital transformation requires an extensive toolkit and a highly customer-centric approach from SDL. Our six long-term strategic objectives encompass the model and capabilities that we are building to achieve this and transform our Company.

##### 1) Build deep relationships with our customers

SDL's 4,500 enterprise customers include many of the world's largest companies, across a variety of industries, and we see significant opportunities to grow our revenues by deepening our strategic relationships with these customers to help them solve their global content challenges.

Through a continued focus on account management and deepening our customer relationships, in 2020, revenue across our top 20 customers was £116.7m (2019: £120.9m). Revenue across our top 20 customers was impacted by a reduction in one customer as a result of the impact of COVID-19. Excluding the impact of this customer, revenues were up £4.1m (3.9%). In addition, cross selling remained a focus for the business and in 2020, we completed 203 cross-selling or up-selling deals. The Repeat Revenue Rate in our Language Services business was 96% (2019: 96%) and the renewal rate across our software businesses was 88% (2019: 91%). Our Net Promoter Score was 43 (2019: 36), which we use as a key performance indicator of customer satisfaction, continued to increase. We are very pleased with the progress made with customers in Regulated Industries (Financial Services, Life Sciences and Legal). Increasingly, we are seeing traction with these customers for SDL's wider portfolio of offerings, including NMT and Content Technologies. We have invested in our sales training across the entire commercial organisation and are combining a consultative sales approach with a go-to market model based on high-value solutions. We systematically survey our customers and proactively work on improvements at all levels of our engagement with them. Through these actions, we aim to continue to drive our quality of revenue through up-sell and retention, cross-selling and expansion across an organisation, and to improve our competitive win rate.

##### 2) Be the world's best Language Service Provider

Through a combination of high quality expert resources, smart processes and technology-enabled innovation, we aim to deliver leadership in the Language Services industry.

SDL's Language Services customers include some of the world's largest enterprises with some of the most acute content challenges as they increase their reach to global audiences, manage the explosion and fragmentation of content and undertake their own digital transformations. To be the world's best LSP requires SDL to have a world-class workforce and supply chain, the smartest, technology-enabled processes and most robust systems. SDL is the third largest LSP in the world and amongst a small number of companies with a global footprint capable not only of delivering services at scale but of making the major investments required in people, infrastructure, technology and systems. These investments have included building specialist resources in areas such as Regulated Industries, marketing solutions or new languages; the development and adoption of NMT across our language offices, and our investments in 'Helix' (Business Process Automation platform), 'Insight' (Management Information platform) and the Company's global IT infrastructure. In 2020, these investments proved critical in helping us meet our customers' needs around quality, security, time and volume whilst also enabling SDL to manage resources and costs effectively, maintaining Linguistic Productive Utilisation at 66% (2019: 67%) and improving Language Services gross margins from 42.9% to 43.3%.

## Strategic Report

### Overview and performance summary (continued)

#### 3) Be the leader in Language and Content Technologies

Innovation is back at the heart of SDL. 2019 saw the launch of SDL Language Cloud, our major new next-generation platform and further significant progress in our industry-leading Neural Machine Translation technology and this was further developed in 2020.

Technology is a critical part of SDL's offering and market differentiation. A key pillar of our strategy has been to seek to capitalise on our market position by increasing the rate of innovation delivered to the market. In 2019, 89% of our R&D effort was spent on new feature or new platform development.

SDL Language Cloud, our first major new Translation Management platform is an end-to-end cloud solution which brings together our robust translation management capabilities with cutting edge NMT and AI, and SDL Trados Studio, the industry's most widely-adopted translation productivity tool. We aim to establish SDL Language Cloud as the world's leading language technology platform and we will continue to deliver a fast cadence of innovation throughout 2021. We also made significant progress in our proprietary NMT technology, which now spans over 130 language pairs. We delivered industry-leading quality and capabilities, such as 'Adaptable Language Pairs' and a range of innovations with the aim of establishing SDL NMT as the most cost-effective, feature-rich and robust enterprise solution in the market. Alongside, NMT, we expanded the content analytics capabilities of our Linguistic AI technology and have deployed this in products and in our processes in 2020.

#### 4) Be the leader in solutions in our target premium sectors

By bringing together our services and technologies, SDL can bring differentiated solutions to meet the toughest global content challenges of customers in our target premium sectors. SDL operates across a wide range of sectors but we refer to segments with high value content needs as 'premium', typically because content is regulated, highly specialist or revenue-generating – such as brand content. These sectors include Financial Services, Life Sciences, Legal and Marketing Solutions. SDL builds repeatable solutions by combining our service expertise, technology and sometimes third-party platforms to provide material business value to our customers. All elements of SDL's portfolio and capabilities play a role but the advent of cutting-edge technologies such as NMT and Linguistic AI, as well as robust connectors and cloud deployment models for our products are key to the step change in our solutions capabilities. Overall, the solutions approach enables SDL to target higher value problems to deliver more immediate return on investment to our customers, whilst increasing our quality of revenues. Over time, these solutions are a path to more managed service and subscription-based revenue models.

#### 5) Enable our people to be their best

Located in 63 offices around the world, SDL's 4,300 employees are a diverse talent pool and our most valuable resource. The recruitment, nurturing and retention of the best people in our industry will be fundamental to SDL's success over the long term. In 2017, we began implementing our multi-year People Strategy, based on the five pillars of leadership, alignment, growth and enablement, recognition and employee experience. Each year, we are more ambitious in our approach and take concrete steps to progress on all fronts. We underpin our People Strategy with our Life at SDL programme, which we use to promote a positive work culture and to encourage open communication and regular feedback.

#### 6) Achieve our target operating model

Our target operating model is global, customer-oriented, agile, automated and data-driven. Prior to 2016, SDL operated as a number of separate business units and we continue to optimise our 'One SDL' structure and systems, across our corporate back-office operations as well as our Language Services business. A joined-up approach enables operational efficiencies, a better experience for our customers and for risks to be identified and mitigated earlier and more easily. From a financial perspective, we are targeting a reduction in total adjusted administrative costs to 40% of revenues (2020: 43%) but our primary strategic goal is to build a scalable, flexible operating platform that can meet the demands for the future and support new data-driven ways of working.

#### How our strategy impacts our long-term financial goals

By achieving our strategic objectives, we aim to build a business with sustainable competitive advantage and to transform the long-term financial performance of the business. We are focusing on higher growth customers and segments, including our 'premium services' segments, and seeking to increase our sales per customer through cross-selling and solution-selling and to win new customers. We aim to increase Group gross margins, enabled by efficiency gains in Language Services and increased technology sales and we aim to reduce operating expenses as a proportion of revenues, predominantly by achieving back office efficiencies. We will balance these cost savings with re-investment in our sales activities and innovation programmes, which include our technology portfolio and Group systems.

## Strategic Report

### Overview and performance summary (continued)

#### Divisional performance

	Language Services			Language Technologies			Content Technologies		
	2020 £m	2019 £m	Mvmt £m	2020 £m	2019 £m	Mvmt £m	2020 £m	2019 £m	Mvmt £m
Revenue	255.9	262.1	(6.2)	52.7	53.6	(0.9)	59.9	60.6	(0.7)
Gross profit	110.6	112.4	(1.8)	40.2	41.1	(0.9)	41.6	42.5	(0.9)
Administrative expenses	(86.9)	(83.9)	(3.0)	(30.9)	(30.9)	-	(26.8)	(26.4)	(0.4)
Adjusted operating profit	23.8	28.5	(4.7)	9.3	10.2	(0.9)	14.8	16.1	(1.3)
Gross Margin	43.2%	42.9%	0.3%	76.2%	76.7%	(0.5%)	69.4%	70.1%	(0.7%)
Operating Margin	9.3%	10.9%	(1.6%)	17.6%	19.0%	(1.4%)	24.7%	26.6%	(1.9%)

#### Language Services

SDL is one of the world's largest Language Service Providers, with more than 1,400 in-house translators and a pool of over 17,000 freelancers and vendors. It provides a full suite of services to localise content and make it relevant for global audiences.

Language Services delivered revenue of £255.9m which is a reduction of 2% from the prior year.

The Group's Regulated Industries practice (Financial Services, Life Sciences and Legal) was in line with the prior year at £95.8m (2019: £95.3m), expanding its footprint in existing accounts, cementing a strong SDL brand in the regulated space and leveraging SDL's technologies to deliver competitive solutions. This approach led to important wins in the fund management, medical devices and pharmaceutical sectors in the year.

Revenue from Commercial Enterprise (non-regulated) markets was adverse to the prior year by £7.9m. Positive growth with its key customers was offset by weaker performance in EMEA and the Americas.

Language Services gross margin increased to 43.2% (2019: 42.9%) driven by productivity gains. Adjusted operating profit was £23.8m (2019: £28.5m) representing a net operating margin of 9.3%. This year-on-year improvement reflects the increased adoption of SDL's business process automation platform (Helix), optimisation of the resourcing model with the DLS acquisition, and continued strong usage of Machine Translation. These initiatives have led to a reduction in the use of external linguists and improved productivity from the Group's internal operations, which is evidenced by the increased productivity among its linguistic community.

#### Language Services Process Automation

In response to the pandemic, SDL was able to move the bulk of the organisation to a work-from-home model in under a week. The transformative work improving internal assets in recent years enabled these to be accessed securely from anywhere in the world using a simple browser, significantly reducing the complexity of working from home. As a result, there was no significant degradation in on-time delivery or quality to clients.

The Helix infrastructure, which is already cloud-based, also supported this distributed way of working, and saw the highest volume of addressable clients to date, with the overall addressable volume rising to 90% by the end of the period. A further 66 customers were on-boarded to Helix, with 77% of all addressable customers having more than 95% of their volume managed through Helix. An increasing number of jobs now go straight to translation without human intervention, providing quicker and more effective delivery to customers.

A key feature of the first half was an acceleration of required turnaround times and smaller per-job volumes, as customers sought to reach their audiences faster and more regularly. SDL saw a significant increase in ultra-fast turnaround work and 35% of all jobs were below 100 words. Quick turn-around time workflows were implemented for urgent requests for a number of large enterprises. SDL's investments in automation have been critical to being able to meet this new pattern.

In order to continue to drive efficiencies in managing these jobs, additional automated functions were added to Helix to streamline project financial tracking and integrate SDL Trados GroupShare, reducing administrative effort in the language offices. SDL's first clients supported by Language Cloud have also been integrated into Helix to provide a seamless flow from their organisation through to the Group's Translation Services and back. Linguistic Productive Utilisation was maintained at 66% (2019: 67%). The Group has also focussed on improving vendor experience with updates to the WorkZone portal. In addition, SDL continues to expand the Helix managed workflows to cover more of its technical delivery teams and to integrate Language Cloud further.

## Strategic Report

### Overview and performance summary (continued)

During the year, a significant proportion of the translation work of the acquired DLS business was moved to in-house production. 80% of addressable regulated industries content was insourced, with a positive impact on external cost of sales for a partial period in the half and the full programme (100% insourcing of the addressable volumes) is expected to be concluded in the second half of the year.

#### Language Technologies

This division includes three product groups: Neural Machine Translation, Translation Management Systems and Translation Productivity. Language Technologies was relatively flat year on year £52.7m (2019: £53.6m). Gross margin was slightly impacted by sales mix and licence type (2020: 76.2%, 2019: 76.7%). Renewal rates were 86% (2019: 89%).

Net administrative expenses of £30.9m were in line with the prior year. Adjusted operating profit of £9.3m (2019: £10.2m) represents a margin of 17.6% (2019: 19.0%).

Neural Machine Translation (NMT) sales grew by 20%. NMT is designed to help customers address two challenges: internal communication and collaboration, and multilingual analytics and content intelligence. 2020 was a turnaround year for NMT, following periods of intense innovation in neural technologies, which enabled a step change in translation output quality across a wide number of languages.

Translation Management Systems (SDL Language Cloud, SDL TMS, SDL Worldserver, SDL Multi Trans) Year-on-year sales increased by 20%. The cloud-based platform has continued to see further advances in 2020, with a continuous release cycle.

Translation Productivity (SDL Trados) Year-on-year sales contracted by 5%. Geographically, growth in Asia and North America was offset by a softening in demand within the Central European region, in particular tougher trading conditions in the German and Swiss manufacturing industries due to Brexit related uncertainty.

#### Content Technologies

SDL's Content Technologies segment delivers web and structured content management solutions. It comprises SDL Tridion, SDL Contenta and SDL XPP. Content Technologies revenue was also relatively flat at £59.9m (2019: £60.6m). Gross profit was £41.6m (2019: £42.5m). Adjusted operating profit was £14.8m (2019: £16.1m) as a result of increased R&D spend on the release of Tridion Docs and the release of Tridion Sites.

SDL Tridion generated some significant licensing wins for both Tridion Sites and Docs, and a number of major renewals were secured. SDL Tridion is increasingly focusing on differentiating within the content management space by concentrating on the area of digital experience plus knowledge management, a move that has resonated well with industry analysts and customers. In the first half, SDL released "Collective Spaces", a collaborative authoring tool which has been adopted by several key customers. The partner ecosystem was further built out at an accelerated pace, including a strategic partnership with Aprimo. Adoption of the Tridion Cloud content-as-a-service offering also accelerated amongst existing on premise customers. SDL have released Tridion Sites 9.5, which will offer a completely new intuitive user experience to increase usability and user productivity.

Within the Contenta Publishing Suite, SDL released XPP 9.4 as part of a continued progression to cloud and including enhanced user experience. In the second half, SDL will introduce new features to its Contenta S1000D product. Contenta continued to build its strong foothold and expansion with the US Department of Defense agencies and contractors.



## Strategic Report

## Financial Review

### Introduction

This report provides alternative performance measures (APMs) which are not defined or specified under the requirements of the International Financial Reporting Standards (IFRS). The Group uses these APMs to improve the comparability of information between reporting periods and division, by adjusting for certain items which impact upon IFRS measures, to aid the user in understanding the activity taking place across the Group's businesses. APMs are used by the Directors and Management for performance analysis, planning, reporting and incentive purposes. A summary of APMs are included in page 78.

### Revenue

Group revenue in 2020 was £368.5m, a decrease of 2% on a reported basis, but a 1% increase on a constant currency basis. Below is a summary of the performance by division which shows marginal decreases across all divisions with positive performance on a constant currency basis.

	2020 £m	2019 £m	At Actual Rates	At Constant Currency
Language Services	255.9	262.1	(2%)	1%
Language Technologies	52.7	53.6	(2%)	-
Content Technologies	59.9	60.6	(1%)	3%
Group	368.5	376.3	(2%)	1%

### Gross profit

Gross profit decreased by 2% to £192.4m representing a gross margin of 52.2% which was in line with the prior year. Gross profit margin within SDL's largest division, Language Services, improved from 42.9% in 2019 to 43.2% in 2020. Gross profit margin within Language Technologies of 76.2% was lower than prior year of 76.7%, while Content Technologies has decreased marginally at 69.4% (2019: 70.1%). The margin variation is driven by the mix of licence revenues between recurring and non-recurring revenues.

### Adjusted administrative expenses

Adjusted administrative expenses increased by £0.6m to £159.4m. These expenses exclude the impact of exceptional items and acquisition related amortisation.

Total R&D expenditure of £26.3m (2019: £24.4m) includes £20.5m (2019: £20.5m) of operating costs and amortisation of £5.8m (2019: £3.9m). Additions to capitalised development costs of £8.1m (2019: £7.5m) 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 spend increased by £0.6m to £28.6m. The Group expects to capitalise development costs of approximately £9.0m per annum in the mid-term.

Sales and marketing costs of £52.1m (2019: £56.7m) includes direct costs for specific sales teams as well as general sales and marketing costs which are allocated across the divisions. These costs have reduced year on year as a result of performance against variable compensation targets.

General administration expenses of £81.0m (2019: £77.7m) include all of our Group, regional and local support functions. The increase is as a result of inflationary pay increases and the impact of foreign exchange losses. The IFRS 2 charge amounted to £2.3m (2019: £2.4m).

Adjusted administrative expenses as a percentage of revenue were 43.2% (2019: 42.2%). 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.

	2020 £m	2019 £m
R&D	26.3	24.4
Sales and marketing	52.1	56.7
General administration	81.0	77.7
Total adjusted administrative expenses	159.4	158.8

## Strategic Report

### Financial Review (continued)

#### Operating profit

Statutory operating profit is reported after the amortisation of acquired intangibles and exceptional items.

Statutory operating profit was £11.3m (2019: £29.7m) which has reduced as a result of the impact of exceptional costs incurred during the year.

Adjusted operating profit, which is operating profit before exceptional items and amortisation of acquired intangibles, was £33.0m (9.0% margin), (2019: £37.2m).

#### Amortisation of acquired intangibles

Acquired intangibles include software and customer relationships arising from acquisitions. Software is amortised over periods of between 18 months and 10 years, Customer Relationships are amortised over a period of 15 years. The amortisation charge relating to acquired intangibles in 2020 was £3.1m (2019: £4.4m). The £1.3m decrease relates to former DLS intangible assets being fully amortised in the previous period.

Amortisation on internally generated assets, namely capitalised development spend and Helix, is treated as an expense in arriving at adjusted operating profit of £33.0m. In general, capitalised development spend is amortised over three years and Helix is amortised over 10 years. By 2022, capitalised development spend and amortisation on the financial statements is expected to be broadly neutral.

#### Exceptional items

The Group incurred exceptional items in the year amounting to £19.2m of which £1.5m (2019: £2.5m), related to redundancies and other associated charges in respect of changes to the organisational design of the business. As a result of operational improvements and systems changes the business reduced back office charges. These restructuring charges are in line with communication made to the Group's investors at the start of last year.

Transaction related costs of £18.5m include costs arising on the Group's all-share combination with RWS Holdings Plc during the period. The costs incurred include the transactions fees incurred by the Group, the IFRS2 charge for the accelerated vesting of the Group's LTIP schemes, severance costs associated with previous management and the accelerated amortisation of deal fees for the Group's RCF which has been replaced by the RCF with the new parent company.

Other exceptional costs were a net credit of £0.8m, principally relating to final settlement costs in relation to historic tax issues of £1.1m.

#### Net finance expense

Net finance expense was £3.4m (2019: £2.7m). £0.9m relates to interest and the amortisation of facility fees on borrowings in relation to the DLS acquisition and £1.9m are finance costs on lease liabilities under IFRS 16. Exceptional finance costs were £0.6m (2019: £Nil) as a result of the impact of the early termination of the Group's legacy RCF.

#### Tax charge and effective tax rate

The Group's tax charge for the year was £3.6m (2019 restated: £7.2m) representing a statutory tax rate of 44.4% (2019 restated: 26.7%). The corporate income tax rates in the overseas countries in which the Group operates continue to be higher than the UK corporate income tax rate of 19% (2019: 19%), which results in a Group effective rate higher than the headline UK rate.

During the year, Management conducted a review exercise on taxation. As part of this, it was identified that a number of deferred tax assets on losses and other temporary differences would have met the criteria for recognition in prior periods. In addition, current and deferred tax liabilities on consolidation entries from prior periods were identified to have been overprovided. As a result of the review exercise, the Group has presented restated comparative information in respect of taxation (see note 2 for further details).

#### Profit after tax

The Group delivered a profit after tax of £4.3m (2019 restated: £19.8m) driven principally by the recognition of exceptional items of £19.2m.

## Strategic Report

### Financial Review (continued)

#### Cash flow and financing

Adjusted operating cash flows were £69.4m (2019: £50.0m) representing an operating cash conversion of 210% (2019: 134%). Working capital before the impact of exceptional items was an inflow of £33.6m (outflow of £1.1m in 2019) principally due to stronger collection of receivables and better working capital management. The cash impact of exceptional items amounted to £13.2m (2019: £2.7m).

Total capital expenditure of £14.9m includes payments for maintenance capital expenditure (£4.4m), development spend (£7.9m) and investment capital expenditure on Helix (£2.6m). Further Helix enhancements will be delivered in 2021 at a cost of £2m to £3m. Maintenance capital expenditure is defined as tangible fixed asset expenditure, including leasehold improvements and expenditure on equipment.

Corporation tax paid amounted to £3.6m (2019: £7.1m), which has reduced following the payment of historic underpayments in the Group's overseas territories in 2019. Tax payable in 2021 is expected to be approximately £7m.

No dividends were paid in the year (2019: £6.3m).

Cash flows from financing in the year were an outflow of £8.1m (2019: outflow of £19.8m). The principal reason for the decrease was the reduction in net repayments of loans in the year. In 2019, a net repayment of borrowings of £5.4m was paid, in the current year, repayments were equal to proceeds from borrowings and, in conjunction with no dividend payments, led to the reduction of £11.1m in financing cash flows.

Cash balances at the year-end amounted to £51.3m with external borrowings of £nil (2019: £26.3m).

#### Treasury and financing

SDL manages its financing and tax planning activities centrally to ensure that the Group has an appropriate structure to support its geographically diverse business. It has clearly defined policies and procedures with any substantial changes to the financial structure of the Group, or to its treasury practice, referred to the Board for approval. The Group operates strict controls over all treasury transactions. The Group does not hedge against forecast future foreign currency transactions or the translation of its foreign currency profits 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 25% of Group costs being Euro denominated.

A portion of the Group's foreign currency net assets are naturally hedged using the Group's multi-currency borrowing facilities.

The Group had a five-year £120m multi-currency revolving credit facility (RCF), expiring on 19 July 2023. Following the all-share combination with RWS, this facility was closed in November 2020 and the Group is now part of the overall parent company revolving credit facility.

## Strategic Report

### DIRECTORS' DUTIES

#### Section 172 Companies Act 2006 - Directors' duties statement

The Board is required to act in accordance with a general set of duties detailed in Section 172 of the UK Companies Act 2006.

In the decisions taken during the year ended 31 December 2020, the Directors have acted in the way they consider, in good faith, would be most likely to promote the success of the Company and its continuing reputation for high standards of business conduct, for the benefit of its members as a whole.

Our 2020 strategic plan was designed to have a long-term beneficial impact on the Company and to contribute to its success in reflecting its stakeholders' aims, detailed in the Corporate Social Responsibilities section on pages 16 to 19.

Our employees are fundamental to the delivery of our plan and we aim to be a responsible employer. The health, safety and wellbeing of our workforce is one of our primary considerations in the way we do business. On page 13 we explain how we have continued to engage regularly with employees throughout 2020.

The Board ensures that management operates the business to the high standards of business conduct and good governance expected and, in doing so, contributes to the delivery of the strategic plan. The result is maintenance and nurture of the Company's reputation, through the construction and delivery of the plan, the long-term view and responsible behaviour.

The ethos of the Company is to behave responsibly towards our stakeholders and treat them fairly and equally, so they benefit from a successful performance. This section and by cross reference, parts of the Directors' report and parts of the Strategic Report, explain how the Board has taken account of stakeholder views and met the requirements of s172 of the Companies Act.

Commentary can also be found throughout this 2020 report as follows:

- The duty to promote the long-term success of the Company, see 'Our strategy' on pages 5 to 6, 'Achieve our target operating model' on page 6; and Risk management on pages 14 to 15.
- Details of stakeholder engagement can be found below and in Corporate Social Responsibilities section – Employees and the SDL Foundation on pages 12 to 13.
- SDL's environmental impact can be found on page 18.
- For remuneration information see the table in note 5.

#### Engaging with stakeholders

The Board understands the importance of stakeholder engagement to the sustained long-term success of the Group and ensures that stakeholders are a central part of the Board's decision-making process. SDL seeks to deliver value to and build long term relationships with its stakeholders.

#### Key stakeholders

##### Shareholders

From 1 January 2020 until 4 November 2020 the Company's shares were listed on the London Stock Exchange. The Board engaged with shareholders through a full calendar of events and meetings, including the AGM, investor roadshows, analyst events, Capital Market Days and individual shareholder meetings.

The Directors and Committee Chairs were available for questions at the AGM which was held in London and provided an opportunity for Directors to report to investors on the Group's activities, to answer their questions and receive their views.

On 27 August 2020, it was announced that SDL PLC and RWS Holdings plc ("RWS") had reached agreement for an all-share combination, pursuant to which RWS would acquire the entire issued and to be issued share capital of SDL by means of a court-sanctioned scheme of arrangement. Subsequent to 30 September 2020, following the shareholders of both SDL and RWS voting in favour of the proposed all-share combination, a court sanctioned scheme of arrangement became effective on 4 November 2020. RWS issued 113,338,511 new ordinary shares as consideration to acquire 100% control of SDL.

Following the combination, Richard Thompson, CEO and Des Glass, CFO of RWS Holdings Plc were appointed as Directors of SDL Limited. The new Directors are engaged in the day-to-day operations of the business and work has begun on integrating SDL and RWS as a combined business.

## Strategic Report

### Employees - Engagement and culture

Our employees are concerned with opportunities for personal development and career progression; a culture of diversity and inclusion; compensation and benefits; and the ability to make a difference within the Group. Board engagement with employees is via:

- Various activities and forums to foster participation in Group events, invite opinions, questions and ideas.
- An opinion survey which canvassed views to understand employee sentiment on issues.
- Multimedia channels for sharing information and as a depository of in-house news items of interest.
- The Chief HR Officer reports to the Board on culture, talent and colleague engagement.
- Monitoring senior leadership capability, development and succession.
- Representation at Board meetings through the Senior Independent Director and further engagement as part of the SID hosted Town Hall meetings.
- Whistleblowing reports.
- Monitoring progress on achieving greater diversity and inclusion, and fostering respect of all racial identities and ethnic minorities through understanding the impact that movements such as Black Lives Matter are having on employees.
- Reviewing health and safety performance and approach to monitoring and reporting of incidents

The global restrictions in place due to Covid-19 have paused face to face engagement activities but we have introduced virtual methods of communication to ensure we continue to maintain the same level of engagement. How the engagement with employees influenced the Board's decision making:

- The Board oversaw the response to the Covid-19 pandemic as it developed, to ensure colleagues were moved safely to a working from home environment, how morale was being maintained and employees were kept connected. 4,500 home offices were set up within 2 weeks, and the Group moved to a virtual 'Life at SDL' engagement strategy.  
Initiatives included:
  - Coronavirus Intranet site for resources such as FAQs, health and wellbeing information, WHO videos, IT guides and more
  - Remote Working workshops to discuss tips, strategies and take questions from employees
  - Coffee chats, cooking sessions, drawing competitions for families, weekly newsletters and much more, set up locally by Site Leaders
  - Monthly Company Updates for employees to get an update from Executives on our pandemic response
  - Weekly fitness sessions set up for employees to connect and exercise together
  - Employee Learning Zone with learning assets on remote working and health and wellbeing
  - Pulse survey to understand how employees were coping through the pandemic
    - We had a 70% response rate with our survey results revealing that overall 86% felt supported by SDL, 91% said their manager was supportive, 85% agreed that the systems/infrastructure were in place and 88% believed company communications were meeting expectations. 84% said productivity had not been impacted and our Life at SDL culture remained strong with 81% proud to work at SDL. 70% said SDL cares about them and 75% would recommend SDL as an employer.
- The Board continued to encourage career development for high potential employees via leadership training.
- Endorsed the ongoing simplification of processes and investment in systems (e.g. global payroll implementation), and spent time reviewing the alignment of the Group's reward and recognition arrangements.
- All employees are required to regularly refresh via ELearning the Code of Conduct which helps to ensure that the Group (i) promotes ethical business practices and conducts business in accordance with applicable laws and regulations; (ii) behaves fairly with colleagues, customers, partners and suppliers; and (iii) provides a safe route for colleagues to raise concerns either through reporting internally or through an independent and anonymous hotline

### Customers

Against the backdrop of COVID-19, the SDL customer experience takes on a new meaning. The sales team have reoriented their efforts to meet customers' primary needs such as safety, security and convenience. Physical interaction has been minimized; the teams have stepped up to meet demand from those industries most affected e.g. regulated industries; and yet remain reachable via alternative channels. SDL's efforts reinforce the trust it has built by showing it cares for customers and understands its obligation to serve and invest in the community.

Where relevant, the Board always seeks to ensure that the customer's viewpoint is taken into account as part of its decision making process, and will frequently consider the impact that a decision will have on customer success

### Partners and suppliers

Here too, relationships matter. Despite the difficult times, our work and meetings are efficiently handled remotely with services continuing to be performed under the applicable local government guidelines. Partners and suppliers are an extension of the Group, representing our brand in the market and allowing us to scale our business. They bring our solutions to life, serving our customers locally and creating an ecosystem of complementary solutions and services. SDL wants the best partners and suppliers to choose to work with SDL. The Group has remained operational throughout the pandemic and is committed to ensuring business continuity whilst protecting its partners and suppliers.

## Strategic Report

### PRINCIPAL RISKS AND UNCERTAINTIES

#### Management process

We have an established risk management process built around our Risk Register to identify, assess and monitor the principal risks that the business faces. This follows a standard methodology which considers the likelihood of occurrence and the scale of potential impact, both financial and reputational, on the business.

Whilst the company's shares were listed on the London Stock Exchange, the executive management team would regularly review and the audit committee challenge, analyses of those risks which were believed could seriously affect the Group's long-term positioning and performance, reputation or its ability to deliver against its KPIs.

Risks are reviewed as a top down and bottom up activity at the Group and the business function level. The content of the Risk Register is considered and discussed through regular meetings with senior management and reviewed by the Executive Directors.

The Strategic risks table sets out the principal risks, their link to strategic objectives, their movement during the year and a summary of key controls as well as any mitigating factors. The Board considered these to be the most significant risks faced by the Group that may impact the achievement of the strategic objectives. 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.

#### Strategic Risks:

Competition Strategy - services	
Risk	There is a risk that the operating model does not support growth ambitions, leading to the services business failing to sustain a competitive advantage.
How we manage risk	Well established technology and product development together with robust quality management processes keeps the needs of customers central to decision-making and SDL competitively positioned.
Competition Strategy - technology	
Risk	There is a risk that SDL is unable to clearly identify, deploy, or sustain competitive advantage over industry and non-industry participants, including product development, leading to a decline in market share.
How we manage risk	Product development and marketing oversee competitive positioning. Continued product integration, in line with the development strategy, deepens customer engagement.

#### Operational Risks:

Human resources	
Risk	There is a risk that market competition affects our ability to retain key talent, leading to a decline in the ability and experience of key roles in key functions.
How we manage risk	The Talent planning and people development programs to retain talent continued during 2020, despite the COVID-19 pandemic. All employees worldwide were swiftly transferred to a virtual 'Life at SDL' whilst working from home, with a supporting engagement plan which included: intranet site for resources such as FAQs, health and wellbeing information, WHO videos, IT guides; remote working workshops; weekly newsletters from local Site Leaders; monthly company updates; fitness sessions; Learning zone; and with regular local contact points plus a group wide survey to understand how employees were coping.
Information security - including cyber	
Risk	There is a risk that SDL fails to respond to emerging security requirements and may be adversely affected by activities such as system intrusions, denial of service attacks, virus spreading and phishing.

How we manage risk	SDL has in place data recovery and systems recovery procedures, security measures and business continuity plans in the event of failure or disruption or damage to the Group's technology or systems. In addition the Group carries out third party penetration testing, trains staff on data security risks and holds cyber insurance.
<b>Transformation &amp; control</b>	
Risk	There is a risk that resistance from end-users and impacted groups is encountered resulting in unrealised returns from the investment in systems.
How we manage risk	Reviews of internal systems are undertaken through program and project management functions. SDL has a rolling programme of updates and monitoring across the global infrastructure.
<b>Legal &amp; compliance</b>	
Risk	There is a risk that legal and regulatory requirement changes are not met leading to the loss of licence to operate, reputational damage, or financial loss.
How we manage risk	The Group works with in-country third party advisors where necessary to ensure compliance with local regulations and data privacy laws in the territories in which it operates. The Group ensures that its people are properly trained on the implications of applicable data privacy legislation. Additional risk assessments have been put in place at all office locations to ensure compliance with the government's rules around safe distancing during the COVID-19.
<b>Business continuity including COVID-19</b>	
Risk	There is a risk that disruption to the business (from geopolitical issues, IT, health pandemics etc.) results in loss of service to clients, lost revenue, and lost opportunities.
How we manage risk	Since March 2020 a comprehensive communication plan has kept all employees informed on the pandemic and actions taken. The Group continues to follow local Government guidance and systems have been put in place to enable everyone to work from home. Office locations have been assessed and adapted to provide a safe and clean working environment for any member of staff wishing to return to the office. The Group is diversified by geography, markets, services and clients. SDL has performed financial modelling to stress test its financial resources to ensure continued ability to absorb changes in demand.

## Financial risks:

<b>Currency movements</b>	
Risk	A significant proportion of the Group's revenues and profits are generated in foreign currencies. There is a risk that trading patterns and/or intercompany trading/loan positions expose the Group to foreign exchange risk.
How we manage risk	The Treasury function oversees the controlled programme of intercompany balance settlements to minimise balance sheet exposures. There is regular reporting and review of any currency exposures.
<b>Taxation</b>	
Risk	There is a risk that assessment by tax authorities results in disallowance of intercompany or other charges, in addition, a risk exists that the Group may require provisions in respect of certain uncertain tax positions arising in one of the tax jurisdictions the Group operates in.
How we manage risk	Business models are reviewed by the Group Tax Manager and external professional advice is sought on group structuring, including in particular transfer pricing framework, sales taxes and employment taxes. The Group does not participate in aggressive tax planning strategies.

## Strategic Report

### CORPORATE SOCIAL RESPONSIBILITIES

#### People

##### Diversity & Inclusion

Demonstrating the prominent role that Diversity & Inclusion plays in our culture, SDL made Diversity & Inclusion a strategic objective in 2020, with emphasis on ways in which we create work environments where employees from diverse communities can grow, develop and thrive. Key actions taken during 2020 included:

- Forums were held with all 4 of our focus areas—LGBT+, Ethnicity, Women, and Physical & Mental Well-Being. Co-lead by an executive team member and an HR leader, over 2,000 employees attended these forums, and we received a tremendous amount of enthusiasm for the work we are doing in diversity and inclusion, along with many practical ideas that we used to inform our plans.
- We produced a blog for Women in Localization that we posted on external channels, which spoke to the importance of maintaining mental well-being during the pandemic.
- We embraced the diversity of our LGBT+ community by celebrating PRIDE with a four part documentary series, explaining the history and meaning of PRIDE and giving a platform for employees to tell their stories. Many of our local sites also launched their own celebrations.
- We set out to heighten and deepen our awareness of all the contributions Black people have had in shaping our world and their rich cultural heritage by celebrating Black History Month. We produced powerful videos sharing the history, stories, and culture recognizing the global nature of people everywhere—which received immensely high accolades. We used internal social channels to share timelines and other facts about Black History to get our employees involved in sharing their celebratory messages and thoughts.
- We explored Unconscious Bias with a workshop we created that discusses the stereotypes we all have that are unintentional, deeply ingrained, and able to influence behaviour. With a successful pilot under our belt, we started running this program across the company—with attendees telling us that it had immediate impact on the way they look at bias, and how uncovering biases and how they influence us is a first step to addressing them.
- We expanded our recruitment sources to include diverse sourcing channels.
- We put a strong focus on Physical & Mental Well-Being to support our employees through the global pandemic and to help them adjust to remote working.
- We celebrated International Day of Happiness and gathered stories from across the globe to produce a fun video on “What Makes Me Happy at Work.”
- In an interview with an external expert and author on Men’s Mental Health, we produced a video on Men’s Mental Health to recognize International Men’s Day—with resounding feedback from both men and women across the company on how important this topic is and how the strategies discussed are so helpful to them and those they care about.
- In recognition of International Day of People with Disabilities, we provided insight into disabilities that are not visible, sharing personal stories and some tips for seeking support from peers.
- Since we want people to be aware of the importance ergonomics has on physical health, we shared tips and techniques for setting up ergonomically sound “pop-up” offices.
- Virtual exercise classes, yoga sessions, and mindfulness videos and programs were made available to employees because their well-being matters to them being able to be their best at work and in life overall.

##### Learning & Development

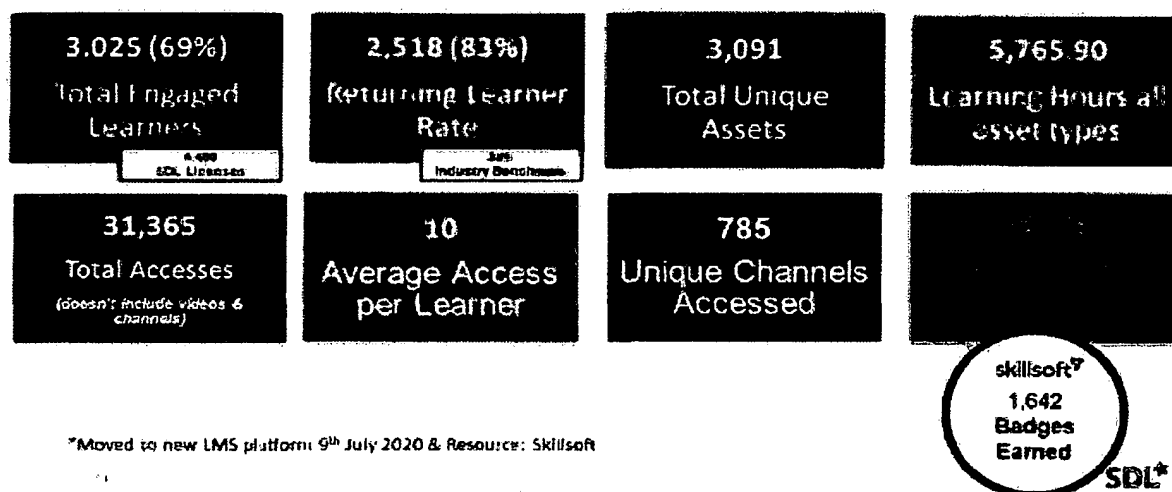
Leadership development remained a top priority for us at SDL, with our consistent goal of helping enable our leaders to connect well with others and build high performing team. In addition to continuing to coach leaders through our internal coaching team, 185 leaders participated in our flagship Foundations of Leadership Program during 2020. This program provides leaders with the knowledge, skills and practice in areas such as Emotional Intelligence, Positive Conversations, Aligning Work to Goals, Coaching, and Building High Performing Teams. In the midst of the pandemic, we quickly re-purposed this 4 day face-to-face program into virtual delivery.

SDL continued to build a sustainable, skilled workforce through its commitment to continuous learning—providing employees with easy-to-consume, relevant and just-in-time learning that helps maximize their potential and success. Through our MyLX learning platform, employees are able to access a plethora of learning assets that build their capability. Mid-way through the year in July 2020 we launched a new and improved platform, with usage statistics for July through December included in the chart on the following page:



## CORPORATE SOCIAL RESPONSIBILITIES (continued)

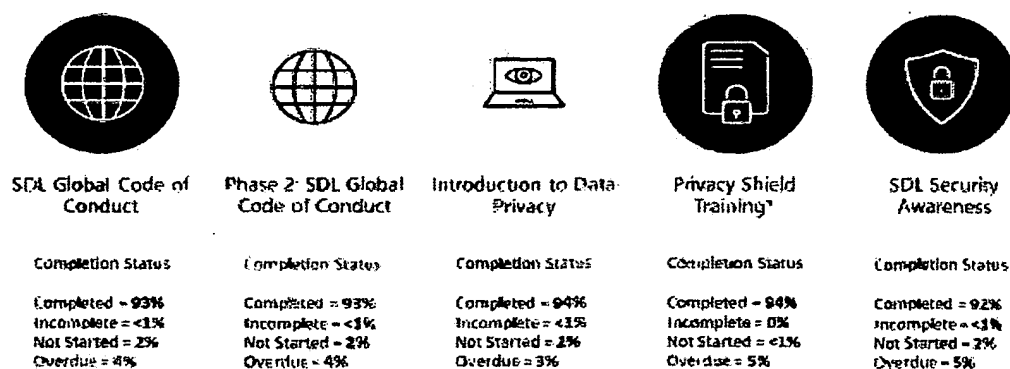
Overall Usage: 9 July 2020\* to 4 December 2020



An ongoing area of importance to SDL is ensuring that our compliance-oriented education is provided in a timely fashion to our employees, given its importance to company operations. The chart below shows completion statistics for our compliance courses:

## Compliance Courses

Data up to 07.01.2021  
Resource: MyLX reports



\*USA Based Employees only



## Strategic Report

### CORPORATE SOCIAL RESPONSIBILITIES (continued)

#### Foundation

SDL Foundation has been operating since 2008 and we look to partner with NGO's that we can have an impact through structural and sustainable projects. Our goal is to help people and communities realise their potential in a sustainable way.

The Foundation is led by trustees who collaborate and share updates to employees through our internal social network, external Facebook pages and various updates throughout the year. Since 2009 we have donated £2m through our Transform It program and £39k through our employee Match It program. We encourage our employees to work with local charities and during 2020 employees have volunteered 214 days to local causes where they have been able to offer help and support. This is working with the restrictions of Covid-19 and is a comparison to 478 days booked in 2019.

We continue to engage with our partners and employees.

#### Environment

The table below provides a summary of the Streamlined Energy and Carbon Reporting ('SECR') mandatory reporting requirements for the SDL Limited UK sites for the financial period of 1st January 2020 to 31st December 2020:

#### SDL Limited SECR 2020 Summary

Emissions Source	Reporting Year End 31 <sup>st</sup> December 2020	
	UK and Offshore	
	Energy Consumption (kWh)	CO <sub>2</sub> e tonnes
Scope 1 – Natural Gas and Fuel Consumption	13,229	2.4
Scope 2 - Electricity	689,071	160.7
Scope 3 – Personal Cars used for Business Purposes	29,083	6.8
<b>Total (Scope 1 + Scope 2 + Scope 3)</b>	<b>731,383</b>	<b>169.9</b>
Financial Turnover £M	£368.7M	
Intensity Ratio: CO <sub>2</sub> e tonnes/turnover £M	0.4608	
Intensity Ratio: CO <sub>2</sub> e kg/turnover £M	460.8	
Intensity Ratio: CO <sub>2</sub> e kg/turnover yearly % change	N/A <sub>1</sub>	
Scope and Methodology	<p><b>Scope:</b> In accordance with the 2018 regulations which amend the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the following energy and carbon sources are required to be reported within Large Unquoted Company Annual Accounts:</p> <ul style="list-style-type: none"> <li>• Natural Gas Consumption</li> <li>• Electricity Consumption</li> <li>• Transport Consumption where the organisation has direct responsibility for the purchasing of fuel e.g. for company vehicles and personal vehicles used for business purposes.</li> </ul> <p><b>Methodology:</b>  The following methodologies have been used to calculate the above CO<sub>2</sub>e emissions:</p> <ul style="list-style-type: none"> <li>• The Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition)</li> </ul>	

	<ul style="list-style-type: none"> <li>The Department of Environment, Food and Rural Affairs (DEFRA) Environmental Reporting Guidelines (2020)</li> </ul>
<b>Energy Efficiency Action Taken</b>	<p>Despite the challenges caused by the COVID-19 pandemic, SDL were able to implement energy saving initiatives in the reporting period. These include:</p> <ul style="list-style-type: none"> <li>Reducing unnecessary equipment usage</li> <li>Increasing the use of video conferencing</li> </ul> <p>Preliminary estimates show that implemented saving initiatives have avoided circa 43,600kWh in electricity and fuel consumption. Once normality has returned to working conditions, this estimate can be re-calculated to more accurately measure the benefit of the initiatives.</p>

*Note – This is the first year of SECR compliance, therefore a comparison of previous years energy and carbon performance is not required.*

**Key findings:**

- Overall energy consumption was calculated to be 731,383kWh, resulting in 169.9 tCO<sub>2</sub>e of emissions.
- Scope 1 consumption and emissions were calculated to be circa 13,229kWh (1.8%) and 2.4 tCO<sub>2</sub>e (1.4%) respectively. This consisted of 100% building energy consumption, as no UK company vehicle usage was reported.
- Electricity consumption (Scope 2) was the most significant category, both in terms of energy consumption and emissions. Electricity consumption was reported at 689,071kWh (94.2%), resulting in the emission of 160.7 tCO<sub>2</sub>e (94.6%).
- Scope 3, transport (personal cars used for business purposes) accounts circa 29,083kWh (4.0%) of energy. This resulted in the emission of 6.8 tCO<sub>2</sub>e (4.0%).
- Covid-19 restrictions have made it difficult to implement or measure the success of any energy saving opportunities as many SDL employees have been working from home. Despite this, SDL implemented two new energy saving initiatives to reduce unnecessary equipment usage and increase the use of video conferencing. Preliminary estimates show these initiatives have avoided 43,600kWh which is equivalent to circa 11 tCO<sub>2</sub>e or 6.5% of SDL Limited overall emissions.
- No annual comparison is required for this year as this is the first year SDL Limited is required to comply with Streamlined Energy Carbon Reporting.
- Comparing overall carbon emissions to financial turnover for the reporting period, SDL have an intensity ratio of 460.8 kgCO<sub>2</sub>e per £M turnover (0.4608 tCO<sub>2</sub>e per £M turnover).

## Strategic Report

### NON-FINANCIAL INFORMATION STATEMENT

This section of the strategic report constitutes SDL's non-financial information statement.

Reporting requirements	Policies and statements which govern our approach	Details of Policies, Statements, Due Diligence & Outcome
Environmental matters	Corporate Social Responsibility Policy Environmental Policy Statement	Streamlined Energy and Carbon Reporting disclosure for SDL Limited UK sites (page 18).
Employees	Global Code of Conduct Employee Assistance Policy SDL Employee Handbook Equality, Diversity and Inclusion Policy	Employees – Engagement and culture (page 13) Corporate Social Responsibility – People (page 16)
Social matters	Corporate Social Responsibility Policy Group Sustainability Policy	Corporate Social Responsibility – Environment (page 18)
Respect for human rights	Modern Slavery and Human Trafficking Policy	Employees – Engagement and culture (page 13) Corporate Social Responsibility – People (page 16)
Anti-corruption and bribery	Anti-Bribery and Corruption Policy Whistleblowing Policy	Available to users on the SDL website: <a href="https://www.rws.com/about/csr/corporate-governance/">https://www.rws.com/about/csr/corporate-governance/</a>
Business model	Our Strategy Execution Update	Strategic Report - Strategy execution update (page 3) Our strategy (page 5)
Principal risks	N/A	Principal risks and uncertainties (pages 14-15)

#### Non-financial KPIs

SDL measures three non-financial areas of its business:

- **Renewal Rate** – We measure this by tracking the % of our customers that renew their contracts with the Group as a measure of customer satisfaction and retention.
- **Net Promoter Score** – We measure our net promoter score alongside our renewal rate as a measure of brand loyalty and the satisfaction of our customers.
- **Employee Engagement** – We survey our employees with our Pulse Survey annually to gauge how supported they feel by the company, their manager, the culture and whether they would recommend SDL as an employer to friends and family. We use this to foster a connection with, and commitment to, our business.

The strategic report included on pages 3 – 20 was approved by the board on 27/05/2021.

By order of the Board



**Des Glass**  
Director  
27 May 2021

## Governance

### Directors' Report

The Directors present their report, together with the audited accounts for the year ended 31 December 2020.

The governance arrangements for the Company have undergone significant change during the year, as a result of the all-share combination of the Company by RWS Holdings Plc, a company with its shares listed on the Alternative Investment Market ('AIM'), a London Stock Exchange regulated market. The combination was undertaken by means of a scheme of arrangement which became effective on 4 November 2020.

The Group complied with the UK Corporate Governance code from 1 January 2020 to 4 November 2020 when the Group was delisted was the London Stock Exchange. RWS Holdings Plc complies with the QCA code.

#### 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. In accordance with s414C(11), the following items that the directors consider are of strategic importance have been included in the strategic 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 the Strategic report and note 22 to the accounts.
- Disclosures concerning greenhouse gas emissions are contained in the sustainability review of the Strategic Report on page 18.
- Details of engagement with employees and other business relationships are set out in the Strategic Report.
- Commentary on research and development activities is contained in the Strategic Report.

#### General information

SDL PLC re-registered as a private limited company on 18 November 2020 following its all-share combination with RWS Holdings plc on 4 November 2020. SDL Limited is registered in England and Wales under company number 2675207 with a registered office address of New Globe House, Vanwall Road, Maidenhead, SL6 4UB. The principal activities of SDL Limited and its subsidiaries throughout the year are described in the Strategic Report on pages 3 to 20.

RWS Holdings plc is the ultimate parent company of the Group and operates internationally.

#### Directors and their interests

The directors during the year and to the date of this report are as follows:

Current directors (date of appointment 4 November 2020):

- Richard Thompson
- Desmond Glass

Resigning directors (date of resignation 4 November 2020):

- David Clayton, Chairman
- Mandy Gradden, non-executive director
- Alan McWalter, non-executive director
- Glenn Collinson, non-executive director
- Adolfo Hernandez, Chief Executive Officer
- Chris Humphrey, non-executive director
- Gordon Stuart, non-executive director (appointed 27 Jan 2020)
- Xenia Walters, Chief Financial Officer

As part of the all-share combination, any SDL shares held by directors were exchanged for shares in RWS Holdings plc.

#### 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 in which a director of the Company is materially interested.

#### 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 on 26 May 2020 and the General Meeting on 9 October 2020.

## Governance continued

### Directors' Report

#### Remuneration

Executive Directors' contracts do not provide for extended notice periods or compensation in the event of termination or a change of control. The remuneration of directors paid by the Company during the year is disclosed in note 5.

#### Political and charitable donations

During the year no political donations were made and no charitable donations were made to external charities. We encourage our employees to work with local charities and during 2020 employees volunteered 214 days (2019: 478) to local causes where they have been able to offer help and support. All volunteer work was carried out observing the restrictions of COVID-19.

#### Going concern

The Strategic Report on pages 3 to 19 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 14 to 15.

At 31 December 2020, the Group had cash of £51.3m and no borrowings. The facility the Group drew down from was fully repaid in the year and terminated early in favour of the arrangements in place within the new Group parent, RWS Holdings Plc. Accordingly, the Group now has access to the RWS Group financing arrangements and included as part of this is a five-year \$120m revolving credit facility (RCF), expiring in February 2024, of which \$31m was in use at year end. At year end US\$89m was undrawn, while the RCF also offers an accordion facility of US\$80m, subject to lender consent. The RWS Group has assessed its forecast compliance with these covenants at 31 March 2021, 30 September 2021 and 31 March 2022 and concluded that even in the most severe but plausible scenario modelled, the RWS Group will continue to comply with its covenants.

The Group has a resilient balance sheet position, with net assets of £267.3m as at 31 December 2020, having made a profit for the year of £4.3m and delivered net cash flows from operating activities of £47.6m for the year then ended.

The business continuity plans actioned by the Group to date have resulted in operations continuing on a remote working basis but with the possibility of a reduction in revenues in the current year as a result of the uncertain macro-economic environment caused by the COVID-19 pandemic.

The Directors have prepared cash flow forecast scenarios for a minimum period of 12 months that, could arise if revenues were to reduce compared to the expectations set at the year end. These scenarios include a revenue decline of 20% for a period of six months, which the Directors believe to be a severe but plausible scenario. All revenue reduction modelling is accompanied by a multi-phased cost reduction plan. This includes the prioritisation of insourcing to reduce linguistic outsourcing costs, restrictions on the Group's variable compensation plans, restriction on new hires and tight control of discretionary spend. The global stay at home directive automatically results in additional cost savings in respect of travel and entertainment.

In conclusion, the Directors believe that the Group is well-placed to manage its business risks and to counter a potential drop in revenues by cost mitigation actions under their control. After due consideration of trading performance to date, the results of the stress-test scenarios and the Director's view of the likelihood of these occurring, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

#### Directors' and officers' insurance (D&O) and Indemnification

A six-year D&O tail policy was purchased from the current insurance carriers shortly before the completion of the all-share combination. This covers directors and officers who have ceased to hold office. The Company, as a PLC, entered into deeds of indemnity with each of its 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 were Qualifying Third-Party Indemnity provisions as defined in section 234 of the Companies Act 2006.

#### 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.

## Governance continued

### Directors' Report

#### 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 Directors have ultimate responsibility for Health and Safety.

A Health and Safety Committee, chaired by the CFO, met regularly during 2020 to discuss health and safety policy and review activities. Specific tasks were 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 (2019: zero).

The Directors' Report included on pages 21 to 23 was approved by the Board on 27/05/2021.

By order of the Board



Des Glass  
Director  
27 May 2021

## Governance continued

### 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 Accounting Standards in compliance with the requirements of the Companies Act 2006 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 International Accounting Standards in compliance with the requirements of the Companies Act 2006;
- 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 and Directors' Report 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.

**Des Glass**  
Director  
27 May 2021



## Financial Statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SDL LIMITED

#### Opinion

We have audited the financial statements of SDL Limited ('the parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Profit or Loss, the Consolidated and the parent company Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Other Comprehensive Income, the Consolidated and parent company Statement of Changes in Equity, and the related Group notes 1 to 25 and parent company notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

#### Other information

The other information comprises the information included in the annual report set out on pages 3 to 23, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SDL LIMITED (*continued*)**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 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.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SDL LIMITED (*continued*)

**Auditor's responsibilities for the audit of the financial statements**

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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

***Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

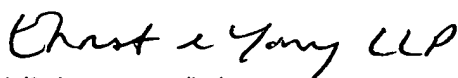
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant frameworks that are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (International Accounting Standards in conformity with the requirements of the Companies Act 2006, FRS 101, and the Companies Act 2006), the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulations (GDPR).
- We understood how SDL Limited is complying with those frameworks by making enquires of management, those responsible for legal and compliance procedures and the Company Secretary. We observed that there is a culture of honesty and ethical behaviour and a strong emphasis is placed on fraud prevention. We corroborated our enquires through our review of Board minutes.
- We assessed the susceptibility of the Group and Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings or influence the perceptions of analysts. Where the risk was considered higher, we performed audit procedures including testing of manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved enquiries of management and those charged with governance, legal counsel; and journal entry testing with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the Group.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Use of our report**

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.



Joe Yglesia (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading  
28 May 2021

## Consolidated Statement of Profit or Loss

for the year ended 31 December 2020

	Notes	2020 £m	Restated <sup>1</sup> 2019 £m
<b>Revenue</b>	3	368.5	376.3
Cost of sales		(176.1)	(180.3)
<b>Gross profit</b>		192.4	196.0
Administrative expenses		(181.1)	(166.3)
<b>Operating profit</b>	4	11.3	29.7
<b>Adjusted operating profit</b>		33.0	37.2
Amortisation of acquired intangibles	4	(3.1)	(4.4)
Exceptional items	6	(18.6)	(3.1)
<b>Operating profit</b>		11.3	29.7
Finance expense (including exceptional finance costs of £0.6m 2019: £Nil)	6, 7	(3.4)	(2.7)
<b>Profit before tax</b>		7.9	27.0
Tax charge	8	(3.6)	(7.2)
<b>Profit for the year attributable to equity holders of the Parent Company</b>		4.3	19.8

<sup>1</sup>Tax balances have been restated. See Note 2 for further details.

The accompanying notes to the accounts on pages 33 to 64 form part of these financial statements.

## Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2020

	2020 £m	Restated <sup>1</sup> 2019 £m
<b>Profit for the year</b>	<b>4.3</b>	<b>19.8</b>
<b>Other comprehensive income / (expense):</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Foreign exchange differences arising on the translation of foreign operations	6.2	(11.0)
Foreign exchange differences arising on the translation of foreign currency quasi equity loans to foreign operations, net of tax	(4.2)	1.9
<b>Total other comprehensive / income / (expense)</b>	<b>2.0</b>	<b>(9.1)</b>
<b>Total comprehensive income for the year attributable to equity holders of the Parent Company</b>	<b>6.3</b>	<b>10.7</b>

<sup>1</sup> Tax balances have been restated. As a consequence, profit for the year and total comprehensive income for the year, net of tax, has been restated. See note 2 for further details.

The accompanying notes to the accounts on pages 33 to 64 form part of these financial statements.

# Consolidated Statement of Financial Position

at 31 December 2020

	Notes	2020 £m	Restated <sup>1</sup> 2019 £m	Restated <sup>1</sup> 2018 £m
<b>Non current assets</b>				
Intangible assets	11	216.3	215.2	222.9
Property, plant and equipment	10	11.9	11.0	9.1
Right of use assets	20	28.4	29.5	–
Deferred tax assets	8	9.6	8.3	9.3
Non current tax assets		3.1	3.1	–
Other receivables	14a	2.3	2.6	2.4
Capitalised contract costs	14b	0.5	0.6	0.8
		<b>272.1</b>	<b>270.3</b>	<b>244.5</b>
<b>Current assets</b>				
Trade and other receivables	14a	98.1	101.6	108.3
Capitalised contract costs	14b	1.9	2.1	1.9
Current tax assets		3.4	3.6	6.3
Cash and cash equivalents	16	51.3	26.3	19.8
		<b>154.7</b>	<b>133.6</b>	<b>136.3</b>
<b>Total assets</b>		<b>426.8</b>	<b>403.9</b>	<b>380.8</b>
<b>Current liabilities</b>				
Trade and other payables	15	(103.9)	(92.5)	(105.1)
Lease liabilities	20	(8.1)	(7.6)	–
Current tax liabilities		(6.1)	(5.9)	(10.0)
Provisions	17	(1.5)	(0.2)	(0.7)
		<b>(119.6)</b>	<b>(106.2)</b>	<b>(115.8)</b>
<b>Non current liabilities</b>				
Trade and other payables	15	(1.8)	(1.9)	(0.7)
Lease liabilities	20	(24.1)	(24.4)	–
Borrowings	16	–	–	(5.4)
Deferred tax liabilities	8	(7.2)	(8.0)	(8.7)
Non current tax liabilities		(2.7)	(4.3)	–
Provisions	17	(4.1)	(5.1)	(3.3)
		<b>(39.9)</b>	<b>(43.7)</b>	<b>(18.1)</b>
<b>Total liabilities</b>		<b>(159.5)</b>	<b>(149.9)</b>	<b>(133.9)</b>
<b>Net assets</b>		<b>267.3</b>	<b>254.0</b>	<b>246.9</b>
<b>Represented by:</b>				
Share capital	18	0.9	0.9	0.9
Share premium		137.6	136.8	136.0
Retained earnings		106.5	96.0	80.6
Translation reserve		22.3	20.3	29.4
<b>Total equity</b>		<b>267.3</b>	<b>254.0</b>	<b>246.9</b>

<sup>1</sup> Tax balances have been restated. See Note 2 for further details.

These consolidated financial statements were approved by the Board of Directors on 27 May 2021 and were signed on its behalf by:



**Des Glass**  
Director

The accompanying notes to the accounts on pages 33 to 64 form part of these financial statements.

**Company No: 02675207**

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Total £m
<b>At 1 January 2019 (as previously stated)</b>	<b>0.9</b>	<b>136.0</b>	<b>79.3</b>	<b>29.4</b>	<b>245.6</b>
Prior year adjustment	–	–	1.3	–	1.3
<b>At 1 January 2019 (restated)</b>	<b>0.9</b>	<b>136.0</b>	<b>80.6</b>	<b>29.4</b>	<b>246.9</b>
Effect of adoption of IFRS16 Leases	–	–	(0.4)	–	(0.4)
<b>At 1 January 2019 (restated)</b>	<b>0.9</b>	<b>136.0</b>	<b>80.2</b>	<b>29.4</b>	<b>246.5</b>
Profit for the year (restated)	–	–	19.8	–	19.8
Other comprehensive expense	–	–	–	(9.1)	(9.1)
<b>Total comprehensive income (restated)</b>	<b>–</b>	<b>–</b>	<b>19.8</b>	<b>(9.1)</b>	<b>10.7</b>
Issue of shares	–	0.8	–	–	0.8
Share-based payments expense	–	–	2.4	–	2.4
Share-based payments deferred tax	–	–	(0.1)	–	(0.1)
Dividends paid	–	–	(6.3)	–	(6.3)
<b>At 31 December 2019 (restated)</b>	<b>0.9</b>	<b>136.8</b>	<b>96.0</b>	<b>20.3</b>	<b>254.0</b>
Profit for the year	–	–	4.3	–	4.3
Other comprehensive expense	–	–	–	2.0	2.0
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>4.3</b>	<b>2.0</b>	<b>6.3</b>
Issue of shares	–	0.8	–	–	0.8
Share-based payments expense	–	–	5.1	–	5.1
Share-based payments deferred tax	–	–	1.1	–	1.1
Dividends paid	–	–	–	–	–
Capital contribution from the parent company (Note 21)	–	–	6.3	–	6.3
Employee taxes on settlement of share-based payments (Note 19)	–	–	(6.3)	–	(6.3)
<b>At 31 December 2020</b>	<b>0.9</b>	<b>137.6</b>	<b>106.5</b>	<b>22.3</b>	<b>267.3</b>

The amounts above are all attributable to equity holders of the Parent Company.

The accompanying notes to the accounts on pages 33 to 64 form part of these financial statements.

## Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £m	Restated <sup>1</sup> 2019 £m
<b>Cash flow from operating activities</b>			
Profit for the year		4.3	19.8
Tax expense		3.6	7.2
Profit before tax		7.9	27.0
Adjustments for:			
Depreciation of property, plant and equipment	10	3.8	3.3
Depreciation of right of use assets	20	7.5	6.0
Amortisation of intangible assets	11	10.5	9.5
Share-based payments expense	19	5.1	2.4
Interest expense		2.8	2.7
Foreign exchange expense / (income)		0.4	0.9
<b>Cash generated from operations before changes in working capital and provisions</b>		<b>38.0</b>	<b>51.8</b>
Decrease / (increase) in trade and other receivables		3.4	6.4
(Decrease) / increase in trade and other payables		9.8	(10.4)
<b>Cash generated from operations</b>		<b>51.2</b>	<b>47.8</b>
Income taxes paid		(3.6)	(7.1)
<b>Net cash flow from operating activities</b>		<b>47.6</b>	<b>40.7</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	10	(4.4)	(5.6)
Acquisition of subsidiaries, net of cash acquired		–	1.3
Expenditure on intangible assets	11	(10.5)	(10.1)
<b>Net cash flow from investing activities</b>		<b>(14.9)</b>	<b>(14.4)</b>
<b>Financing activities</b>			
Proceeds from issue of shares, net of costs	18	0.8	–
Proceeds from external borrowings	16	63.0	26.2
Repayment of external borrowings	16	(63.0)	(31.4)
Repayment of principal portion of lease liabilities	20	(8.0)	(7.0)
Dividends paid	9	–	(6.3)
Finance costs		(0.9)	(0.7)
<b>Net cash flow from financing activities</b>		<b>(8.1)</b>	<b>(19.2)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>24.6</b>	<b>7.1</b>
Cash and cash equivalents at 1 January		26.3	19.8
Effect of exchange rates changes		0.4	(0.6)
<b>Cash and cash equivalents at 31 December</b>	16	<b>51.3</b>	<b>26.3</b>

<sup>1</sup> Tax balances have been restated. See Note 2 for further details.

The accompanying notes to the accounts on pages 33 to 64 form part of these financial statements.



## Notes to Consolidated Financial Statements

for the year ended 31 December 2020

### 1 Corporate information

The consolidated financial statements of SDL Ltd (the 'Group') for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 27 May 2021. SDL Ltd is a private limited company incorporated and domiciled in England whose shares are privately owned by RWS Holdings Plc, a listed Ultimate Parent Company whose shares are publicly traded on the AIM Market. SDL Limited is registered in England and Wales under company number 02675207. The consolidated financial statements of SDL Ltd and its subsidiaries have been prepared in accordance with International Accounting Standards in compliance with the requirements of the Companies Act 2006.

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, specifically where there is no note to the financial statements for the respective accounting policy. Accounting policies are included within the respective financial statement note where notes are prepared for key financial statement areas e.g. Revenue.

#### Statement of compliance

The consolidated financial statements of SDL Ltd and its subsidiaries have been prepared in accordance with International Accounting Standards in compliance with the requirements of the Companies Act 2006, as relevant to the financial statements of SDL Ltd. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and these are presented on pages 65 to 76. The consolidated financial statements are prepared on a historical cost basis.

The consolidated financial statements are presented in Sterling (GBP) and all values are rounded to the nearest hundred thousand except where otherwise indicated.

#### Prior year adjustment

The Group identified errors within its assessment of current tax and deferred tax which date back prior to the earliest period presented within these financial statements. In line with IAS 8, the Group has restated balances as at 1 January 2019 and restated its financial results for the year ended 31 December 2019.

The Group identified a number of adjustments which had the effect of understating deferred tax balances. These deferred tax adjustments principally relate to the under-recognition of losses in prior periods in the US and in a number of other territories. Other adjustments were identified which impact current tax and relate to adjustments relating to the over-recognition of current tax net liabilities. The following summarises the principal issues identified:

- Adjustments in respect of an additional £0.5m of deferred tax assets were included, where it was identified that the requirements for recognition would have been met in prior periods.
- Adjustments representing a £0.9m decrease on current tax liabilities and a £0.2 decrease on deferred tax assets were identified in relation to the tax accounting for Group consolidation entries arising originally in previous periods.
- Adjustments include a £0.3m increase in deferred tax assets as a result of re-measurement of US temporary differences at the relevant US state tax rates. Previously, the Group has recognised US temporary differences using the federal tax rate.
- Adjustments in respect of £0.7m increase in deferred tax assets on US federal losses to correctly reflect the s382 study.
- Adjustments in respect of £0.7m decrease in current tax assets comprise of a number of items of a clerical nature.

Other adjustments in respect of taxation, both current and deferred, were identified which led to a net positive impact of £0.1m on the net assets of the Group.

The impact of the adjustments identified on the financial statements in previous periods is reconciled in full on the following page.

## 2 Significant accounting policies continued

### Prior year adjustment continued

The financial impact of the errors identified are as follows:

	As at 31 December 2019			As at 31 December 2018		
	Reported £m	Adjustment £m	Restated £m	Reported £m	Adjustment £m	Restated £m
Non-current tax assets	3.1	-	3.1	-	-	-
Current tax asset	4.3	(0.7)	3.6	6.6	(0.3)	6.3
Non-current tax liabilities	(4.3)	-	(4.3)	-	-	-
Current tax liabilities	(6.8)	0.9	(5.9)	(11.2)	1.2	(10.0)
Deferred tax assets	7.0	1.3	8.3	8.9	0.4	9.3
Deferred tax liabilities	(8.0)	-	(8.0)	(8.7)	-	(8.7)
Retained earnings	(94.5)	(1.5)	(96.0)	(79.3)	(1.3)	(80.6)

Income statement for the year ended 31 December 2019:

	As at 31 December 2019		
	Reported £m	Adjustment £m	Restated £m
Profit before taxation	27.0	-	27.0
Taxation	(7.4)	0.2	(7.2)
Profit after taxation	19.6	0.2	19.8

There was no impact of the above on the Group's main adjusted earnings measure which is Adjusted EBITA. If the adjustments had been included in the prior year results the effect on the Groups Earnings per Share ('EPS') would have been an increase of 0.02p to EPS for a revised value of 21.8p. The impact on the Group's Diluted Earnings per Share would also have been an increase of 0.02p for a revised value of 21.3p. The Group is no longer required to apply IAS33 and therefore no disclosures for EPS are included in these financial statements.

### Going concern

The financial statements have been prepared on the going concern basis.

At 31 December 2020, the Group had cash of £51.3m and no borrowings. The facility the Group drew down from was fully repaid in the year and terminated early in favour of the arrangements in place within the new Group parent, RWS Holdings Plc. Accordingly, the Group now has access to the RWS Group financing arrangements and included as part of this is a five-year \$120m revolving credit facility (RCF), expiring in February 2024, of which \$31m was in use at year end. At year end US\$89m was undrawn, while the RCF also offers an accordion facility of US\$80m, subject to lender consent. The RWS Group has assessed its forecast compliance with these covenants at 31 March 2021, 30 September 2021 and 31 March 2022 and concluded that even in the most severe but plausible scenario modelled, the RWS Group will continue to comply with its covenants.

The Group has a resilient balance sheet position, with net assets of £267.3m as at 31 December 2020, having made a profit for the year of £4.3m and delivered net cash flows from operating activities of £47.6m for the year then ended.

The business continuity plans actioned by the Group to date have resulted in operations continuing on a remote working basis but with the possibility of a reduction in revenues in the current year as a result of the uncertain macro-economic environment caused by the COVID-19 pandemic.

The Directors have prepared cash flow forecast scenarios for a minimum period of 12 months that, could arise if revenues were to reduce compared to the expectations set at the year-end. These scenarios include a revenue decline of 20% for a period of six months, which the Directors believe to be a severe but plausible scenario. All revenue reduction modelling is accompanied by a multi-phased cost reduction plan. This includes the prioritisation of insourcing to reduce linguistic outsourcing costs, restrictions on the Group's variable compensation plans, restriction on new hires and tight control of discretionary spend. The global stay at home directive automatically results in additional cost savings in respect of travel and entertainment.

In conclusion, the Directors believe that the Group is well-placed to manage its business risks and to counter a potential drop in revenues by cost mitigation actions under their control. After due consideration of trading performance to date, the results of the stress-test scenarios and the Directors' view of the likelihood of these occurring, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

## 2 Significant accounting policies continued

### 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 Ltd is Sterling. The accounting policies used in preparing the consolidated historical financial information for the year ended 31 December 2020 have been consistently applied to all years presented and are as set out below. The Annual Report consolidates the financial information of SDL Ltd and the entities it controls (its subsidiaries) at 31 December 2020. Control is achieved where the Group 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 amended standards and interpretations

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:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Business Combinations: Definition of a Business
- Amendments to IAS 1 and IAS 8 Definition of Material
- Amendments to IFRS 9, IAS 37 and IFRS 7 Interest Rate Benchmark Reform (phase 1, phase 2 to follow in 2021)
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

### 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 2021 and earlier application is permitted. The Group has not early adopted any of the following standards and does not expect their adoption to have a material impact on current or future financial statements or any future foreseeable transactions:

Effective January 1, 2021

- Amendments to IFRS 4 Insurance Contracts
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform – Phase 2

Effective January 1, 2022

- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)
- Amendments to IAS 16 – Proceeds before Intended Use
- Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract

Effective January 1, 2023

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
- Amendments to IFRS 17 – Insurance Contracts

### 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.

## 2 Significant 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 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 qualifying 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.

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

### Trade receivables

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 a provision for expected credit losses.

Loss allowances for trade receivables and contract assets are measured at an amount equal to lifetime expected credit losses. There are no trade receivables held by the Group where any significant financing component has been included due to the short-term nature of the Group's trade receivables.

### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits with an original maturity of 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.

## 2 Significant accounting policies continued

### 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.

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

### 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.

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 – multi-element arrangements

To determine the appropriate revenue recognition for contracts containing multi-elements that include both products and services, we evaluate whether the contract should be accounted for as a single, or multiple, performance obligations. Management is required to exercise a degree of judgement in setting the criteria used for determining when revenue which involves several elements should be recognised and the stand-alone selling price of each element. The Group generally determines the stand-alone selling prices of elements based on prices which are not observable and are therefore based on stand-alone list prices which are then subject to discount. Further detail involved in estimating standalone selling prices for the purpose of allocating the transaction price in multi-element arrangements is provided in Note 3.

This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. Licence revenue in the year amounted to £48.9m (2019: £51.2m).

#### 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 (see Note 11). Development costs capitalised during the year amounted to £8.0m (2019: £7.5m).

### 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:

#### 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 13). 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.

## 2 Significant accounting policies continued

### 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 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.

Following the introduction of IFRIC 23 in the prior year, Uncertainty over Tax Treatments, the Group has ensured it complies with the requirements of the interpretation. The Group considers all tax positions on a separate basis with any amounts determined by what it considers to be the most appropriate method of either the expected value or most likely amount method on a case by case basis.

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 8, the total value of transfer pricing UTPs was £4.1m (2019: £3.4m).

### 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 £12.9m (2019: £13.5m).

#### Leases – estimating the incremental borrowing rate

The Group is required to use an incremental borrowing rate (IBR) when it comes to measuring lease liabilities, this is because it cannot readily determine the interest rate implicit in the lease. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term with similar security, the funds required for the right of use asset, in a similar economic environment. The IBR therefore reflects what the Group would have to pay, which requires estimation given the lack of any observable rates for the Group's subsidiaries. There is also estimation where rates need to be adjusted to reflect the terms and conditions of the lease (for example, where a lease is denominated in the non-functional currency of that Group company). Further details on leases are disclosed in Note 20.

## 3 Revenue from contracts with customers

### Accounting policy

*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.*

*The specific application of the five step principles of IFRS 15 as they apply to the Group's revenue contracts with customers are explained below at an income stream level. In addition to this, the individual performance obligations identified within the Group's contracts with customers are individually described as part of this note to the financial statements.*

### Multi-element arrangements

*For multi-element arrangements, revenue is allocated to each performance obligation based on stand-alone selling price, regardless of any separate prices stated within the contract. This is most common within the Group's contract for licences, which may include performance obligations in respect of the licences, support and maintenance, hosting services and professional services. The Group's software licences are either perpetual, term or software as a service (SaaS) in nature. The Group's revenue contracts do not include any material future vendor commitments and thus no allowances for future costs are made.*

*The allocation of transaction price to these obligations is a significant judgement, more details of the nature and impact of the judgement are included in Note 2. The identification of the performance obligations within some multi-element arrangements involves judgement, however none of the Group's contracts requires significant judgement in this regard.*

### 3 Revenue from contracts with customers continued

#### Accounting policy continued

##### Performance obligations

*Disaggregated information about the Group's revenue recognition policy and performance obligations are summarised below:*

##### Perpetual and term licences

*The Group's perpetual and term licences are accounted for at a point in time when the customer obtains control of the licence, occurring either where the goods are shipped or, more commonly, when electronic delivery has taken place and there is no significant future vendor obligation.*

*The software to which the licence relates has significant standalone functionality and the Group has determined that none of the criteria that would indicate the licence is a right to access apply. In addition, the Group has identified no other performance obligations under their contracts for these licences which would require the Group to undertake significant additional activities which affects the software. The Group therefore believes the obligation is right to use the licence as it presently exists and therefore applies the point in time pattern of transfer. Transaction price is allocated to licenses using the residual method based upon other components of the contract. The residual method is used because the prices of licenses are highly variable and there is no discernible standalone selling price from past transactions.*

##### 'SaaS' licences

*Unlike the Group's perpetual and term licences, the Group has identified that there are material ongoing performance obligations associated with the provision of SaaS licences. The Group has identified that this creates a right to access the intellectual property, instead of a right to use. Accordingly, the associated licence revenue is recognised over time, straight line for the duration of the contract. As with other licences, the Group utilises the residual method to allocate transaction price to these performance obligations.*

##### Support and maintenance

*Support and maintenance represents a stand ready obligation to provide additional services to the Group's licence customers over the period of support included in the contract. The Group measures the obligation by reference to the standalone selling price, based upon internal list prices subject to discount. The pattern of transfer is deemed to be over time on the basis that this is a continuing obligation over the period of support undertaken and accordingly, recognised as revenue on a straight line basis over the course of the contract.*

##### Hosting services

*The Group provides managed services (hosting) as part of certain contracts with customers. The pattern of transfer for the service is such that the customer simultaneously receives and consumes the benefits provided by the Group and therefore, is recognised over time for the duration of the agreement. Transaction price from the contract is allocated to hosting services obligations based upon a cost plus method.*

##### Professional services

*The Group provides professional services to customers including training, implementation and installation services alongside certain contracts for software licences. These services are sold in units of consultant time and are therefore measured on an output method basis. Revenue is therefore recognised on these engagements based on the units of time delivered to the end customer. Transaction price is allocated based upon the standalone selling price, calculated by reference to the internal list prices for consultant time subject to any discounts. A small number of the Group's professional services contracts are on a fixed price contract and the output method is used based on an appraisal of applicable milestones.*

##### Language Services

*The Group's Language Services contracts with customers provide for the Group to be reimbursed for their performance under the contract as the work is undertaken. Accordingly, as the Group has both the right to payment and no alternative use for the translated asset, the Group recognises revenue over time for this performance obligation.*

*The Group measures the completeness of this performance obligation using input methods. The relevant input method is the cost incurred to date as a proportion of total costs, in determining the progress towards the completion of the performance obligation for Language Services contracts.*

*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*

*Language Services contracts are typically billed in arrears on completion of the work with revenue recognised as accrued income balances, whilst the Group's technology contracts are typically billed in advance and revenue recognition deferred where the performance obligation is satisfied over time. The Group's contracts for term licenses are recognised upfront when performance obligations are delivered in the same manner as a perpetual license sale but, typically, are billed annually and do not follow the same billing pattern as the Group's contracts for perpetual licenses, instead billing follows more closely that of a SaaS license contract.*

### 3 Revenue from contracts with customers continued

#### Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	2020 £m	2019 £m
Language Services	255.9	262.1
Professional services	14.6	15.1
Licence revenue <sup>1</sup>	48.9	51.2
Hosting services	3.8	3.2
Support and maintenance revenue	45.3	44.7
<b>Total revenue</b>	<b>368.5</b>	<b>376.3</b>
Goods and services transferred at a point in time	28.7	32.3
Goods and services transferred over time	339.8	344.0
<b>Total revenue</b>	<b>368.5</b>	<b>376.3</b>

1 Licence revenue as disclosed above includes the Group's perpetual, term and SaaS licences.

Revenue recognised during the period that was included within deferred revenue at 1 January 2020 was £37.7m (2019: £39.8m).

#### Capitalised contract costs

The Group holds material asset balances in respect of contract costs capitalised as they meet the criteria under IFRS 15 as incremental costs to obtain a contract. These primarily relate to the commissions paid on the acquisition of new contracts. The Group's accounting policy and associated disclosure for these balances are presented in note 14b to these financial statements.

#### Contract assets and liabilities

Contract assets and liabilities are recognised at the point in which the Group's right to consideration is unconditional, the Group uses the term 'Trade Receivables' for these financial asset balances. Contract assets are recognised where performance obligations are satisfied over time until the point of final invoicing when these are classified as 'Trade Receivables'.

For performance obligations satisfied over time, judgement is required in determining whether a right to consideration is unconditional. In such situations, a receivable is recognised for the transaction price of the non-cancellable portion of the contract when the Group starts satisfying the performance obligation. The Group recognises revenue for partially satisfied performance obligations as 'Accrued Income', which is presented in note 14a to these financial statements.

The total value of transaction price allocated to unsatisfied or partially unsatisfied performance obligations at the year-end is £48.8m (2019 - £56.3m). Support and maintenance is a stand ready obligation discharged straight line over the duration of the Group's software contracts, the period over which this is recognised can be identified based on the value of current and non-current deferred income. Unsatisfied performance obligations in respect of language and professional services are all short-term and expected to be recognised in less than one year.

The Group offsets any contract liabilities with any contract assets that may arise within the same customer contract, typically, this only applies to the Group's licence and support and maintenance revenue contracts. In all material respects there are no significant changes in the Group's contract asset or liability balances other than business-as-usual movements during the year.

### 4 Profit on ordinary activities

	2020 £m	2019 £m
<b>Operating profit is stated after charging</b>		
Research and development expenditure	26.3	24.4
Depreciation of property, plant and equipment (note 10)	3.8	3.3
Depreciation of right of use assets (note 20)	7.5	6.0
Amortisation of acquired intangible assets (note 11)	3.1	4.4
Amortisation of other intangible assets (note 11)	7.4	5.1
Lease rentals for plant and machinery (note 20)	0.6	0.6
Lease rentals for land and buildings (note 20)	1.5	3.5
Net foreign currency differences	0.4	0.9
Share-based payments expense	5.1	2.4



## 4 Profit on ordinary activities continued

### Research and development costs

Management continually review 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 £8.0m (2019: £7.5m) of development costs in the year.

	2020 £m	2019 £m
<b>Auditor's remuneration</b>		
Fees payable to the Company's auditors of the Parent Company and consolidated accounts	0.8	0.6
Audit of the financial statements of subsidiaries of the Parent Company	0.2	0.2
Audit related assurance services	0.1	0.1
Payments to predecessor auditor in the year	-	-
<b>Total</b>	<b>1.1</b>	<b>0.9</b>

## 5 Employee costs and Directors' remuneration

### 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.

	2020 £m	2019 £m
Wages and salaries	178.5	180.9
Social security costs	22.9	20.6
Defined contribution pension scheme cost	6.0	5.8
Share-based payments expense (note 19)	5.1	2.4
<b>Total</b>	<b>212.5</b>	<b>209.7</b>

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

	2020 Number	2019 Number
Administration and commercial	1,296	1,283
Production	3,154	2,959
<b>Total average number of employees</b>	<b>4,450</b>	<b>4,242</b>

The total of remuneration paid to statutory Directors during the year was as follows:

	2020 £m	2019 £m
Wages and salaries	3.2	2.1
Defined contribution pension scheme cost	0.1	0.1

The Director's wages and salaries expense for the year included severance payments of £0.9m (2019: £Nil). The highest paid Director's wages and salaries expense for the year was £1.9m (2019: £1.0m), included within this amount are severance payments of £0.6m (2019: £Nil). The number of Directors who participated in a defined contribution pension scheme was 2 (2019: 2). The amounts paid in respect of pension benefits for the highest paid Director was £0.1m (£0.1m).

During the year, the number of Directors who exercised share options was 2 (2019: 1) with a value of £6.0m (2019: £0.4m) and received shares under a long-term incentive scheme. The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £6.8m (2019: £1.4m), and Company pension contributions of £Nil (2019: £0.1m) were made to a money purchase scheme on their behalf. During the year, the highest paid Director exercised share options with a value of £5.0m (2019: £0.4m) and received shares under a long-term incentive scheme. The amounts disclosed within the current year include amounts in respect of severance and the accelerated vesting of the Group's LTIP scheme as a result of the Group's all-share combination with RWS Holdings Plc, there were no such similar costs in the prior year. Severance and LTIP costs arising as a result of the business combination have been included within Exceptional items under Transaction related costs, see Note 6 for more details.

## 6 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.

	2020 Pre tax £m	2020 Tax impact £m	2020 Total £m	2019 Pre tax £m	2019 Tax impact £m	2019 Total £m
Restructuring costs	1.5	(0.3)	1.2	2.5	(0.6)	1.9
Transaction related costs (including £0.6m finance costs)	18.5	(0.9)	17.6	0.1	(0.1)	–
Acquisition related costs	–	–	–	0.1	(0.1)	–
Other exceptional items	(0.8)	–	(0.8)	0.4	–	0.4
<b>Total exceptional costs</b>	<b>19.2</b>	<b>(1.2)</b>	<b>18.0</b>	<b>3.1</b>	<b>(0.8)</b>	<b>2.3</b>

### Restructuring costs

Restructuring costs relate to the costs of organisational change associated with the Group's transformation programme. Normal trading redundancy costs are charged to the income statement as incurred. The benefits of these programmes are reflected within operating profit.

### Transaction related costs

Transaction related costs of £18.5m include costs arising on the Group's all share combination with RWS Holdings Plc during the period. The major components of these costs incurred include the transactions fees incurred by the Group (£10.0m), the IFRS2 charge for the accelerated vesting of the Group's LTIP schemes (£3.8m), severance costs associated with previous management (£3.2m) and the impairment of prepaid costs for the Group's RCF which has been replaced by the RCF with the new parent company (£0.6m, included as part of finance costs).

### Other exceptional items

Other exceptional costs include a credit of £1.1m (2019: £0.6m charge) for tax penalties which are considered exceptional due to its size and nature. During the year the Group was made aware by tax authorities that the charging of penalties would not be pursued on the Group's tax provision and that only interest was intended to be charged on the amounts provided, accordingly as penalties were recorded against Exceptional Items in previous periods, the credit for their reversal has also been included in Exceptional items.

Exceptional items include £6.0m of non-cash movements, relating to the Group's Exceptional IFRS2 Charge and associated payroll taxes (£3.8m), impairment of prepaid RCF fees (£0.6m), accrued but unpaid severance costs (£2.4m) and offset by the reversal of exceptional tax penalties (credit of £0.8m), with £13.2m of cash outflows arising from exceptional items.

## 7 Finance expense

	2020 £m	2019 £m
Interest expense on borrowings	0.9	1.1
Finance costs on lease liabilities under IFRS 16 (note 20)	1.9	1.6
Exceptional finance costs (note 6)	0.6	–

## 8 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. 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. As referenced in note 2, the Group considers all tax positions separately and uses either the most likely or expected value method of calculation on a case by case basis.

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

## 8 Taxation continued

### Accounting policy continued

*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.*

*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' in Note 19, 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 2020 is calculated at 19% (2019: 19%) of the estimated assessable profit for the period.

	2020 £m	Restated 2019 £m
<b>Current tax:</b>		
UK corporation tax at 19% (2019: 19%)	0.3	1.3
Overseas current tax (credit) / charge	6.2	4.6
Adjustment in respect of previous years	(2.0)	1.0
<b>Total current tax charge</b>	<b>4.5</b>	<b>6.9</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	1.0	0.6
Impact of change in tax rate	(0.3)	–
Adjustments to estimated amounts arising in prior periods	(1.6)	(0.3)
<b>Total deferred tax (credit) / charge</b>	<b>(0.9)</b>	<b>0.3</b>
<b>Total tax charge as per the income statement</b>	<b>3.6</b>	<b>7.2</b>
Tax in other comprehensive income	(1.0)	(0.3)
Tax in equity	(1.1)	–
<b>Tax attributable to the Group</b>	<b>1.5</b>	<b>6.9</b>

In 2018, the Group finalised its last s382 calculation in respect of prior US acquisitions. This is included within the origination and reversal of temporary differences in the prior year within the 2019 comparative information, no such amount was incurred in the current year.

## 8 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:

	2020 £m	Restated 2019 £m
Profit for the year before taxation	7.9	27.0
Profit for the year before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	1.5	5.1
Effects of:		
Expenses not deductible for tax purposes	3.1	0.6
Adjustment in respect of previous years	(3.6)	0.7
Recognition of previously unrecognised trading losses / temporary differences	(0.1)	(0.3)
Utilisation of tax losses brought forward previously not recognised	-	(0.3)
Higher/ (lower) tax rates on overseas earnings	1.6	1.3
Effects of changes in tax rates	(0.3)	-
Other movements	1.4	0.1
<b>Tax charge as per the income statement</b>	<b>3.6</b>	<b>7.2</b>
<b>Effective tax rate</b>	<b>44%</b>	<b>27%</b>

The Group's taxation strategy is aligned to its business strategy and operational needs. The Directors are 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 effective tax rate for the year is higher than the UK's statutory tax rate mainly due to the impact of non-tax deductibility of exceptional costs related to the acquisition by RWS. The Group's tax rate is also sensitive to the geographic mix of profits and reflects a combination of higher rates in certain jurisdictions, such as Germany and Japan, a lower rate in the UK and USA, with other rates that lie in between. The Group is subject to many different forms of taxation including, but not limited to, income and corporation tax, withholding tax and sales taxes.

The Group has operations in 39 countries and multiple states in the US.

### Key influences

The Group has restated the 2019 tax balances as a result of a number of prior period adjustments, the impact of which have been disclosed in Note 2. The adjustments to restate the prior year relate to a number of adjustments which had the impact of under-recognising deferred tax on losses across a number of the Group's territories, including the US and over-recognising net current tax liabilities in respect of uncertain tax provisions.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date, as a result deferred tax balances as at 31 December 2020 continue to be measured at 19%. Management has assessed the deferred tax balances held and the rate at which they are expected to be realised and based on the exercises performed, balances are not expected to be materially impacted by the UK rate change.

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 has 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 required to the historic transfer pricing arrangements specifically between the UK, Ireland and the US. The Group has entered into formal discussions in relation to this matter with tax authorities and the expected tax payment of £2.4m (2019: £2.4m) to the UK tax authorities (after the use of tax losses) and repayment of £3.1m from the Irish tax authorities (2019: £3.1m) are included in non-current tax liabilities and tax assets. The £3.1m tax asset is expected to be recoverable after more than one year.

The Group has continued to review its transfer pricing arrangements in other jurisdictions during the year, and although this review has not yet been formally concluded, the value of transfer pricing uncertain tax positions at the year-end has increased to £4.1m (2019: £3.4m).

## 8 Taxation continued

Deferred tax assets and liabilities are attributable to the following:

	2020 £m	Restated 2019 £m
<b>Deferred tax assets in relation to:</b>		
Tax value of carry forward losses of UK subsidiaries	2.8	–
Tax value of carry forward losses of overseas subsidiaries	2.3	3.4
Movements in capital allowances	0.3	0.8
Other temporary differences	4.2	4.1
<b>Total deferred tax asset</b>	<b>9.6</b>	<b>8.3</b>
<b>Deferred tax liabilities in relation to:</b>		
Intangible assets	6.7	5.5
Other temporary differences	0.5	2.5
<b>Total deferred tax liability</b>	<b>7.2</b>	<b>8.0</b>

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 £72.3m (2019: £84.3m) available for offset against future profits. A deferred tax asset has been recognised in respect of £28.4m (2019: £12.7m) of such losses. No deferred tax asset has been recognised in respect of the remaining £43.8m (2019: £71.6m) 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 £5.1m (2019: £3.4m). 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 £8.8m (2019: £13.0m). The Group has recognised deferred tax assets on losses in the US which have a 20 year expiry date and expects to use these losses within this period, the earliest date these losses are due to expire is 31 December 2033 and at the year-end losses amounted to £13.0m. Outside of the United States, the Group has recognised an immaterial amount of tax losses with expiry dates, principally in respect of the Group's operations in China, the Group only recognises amounts expected to be utilised before expiry.

Included within other short-term temporary differences are deferred tax assets in respect of potential share-based compensation tax benefits of £0.1m (2019: £1.0m) and a deferred tax asset in respect of unrealised foreign exchange losses not deductible and provisions, accruals and other payables where the tax asset will be realised on payment.

Reconciliation of movement on deferred tax asset:

	2020 £m	Restated 2019 £m
As at 1 January	8.3	9.3
Adjustments arising on the transition to IFRS16	–	0.5
Retranslation of opening balances	0.3	–
Prior year adjustments in respect of deferred tax assets	0.7	–
Recognition of previously unrecognised losses	–	0.3
Tax loss arising/(utilised) in the period recorded in comprehensive income	(0.4)	(3.3)
Tax loss arising/(utilised) in the period in statement of changes in equity	1.2	0.1
Temporary differences arising in the period	0.4	1.4
Deferred tax asset arising on share-based payments recorded in comprehensive income	(0.8)	–
Deferred tax asset arising on share-based payments recorded in statement of changes in equity	(0.1)	–
<b>Deferred tax asset at 31 December</b>	<b>9.6</b>	<b>8.3</b>

## 8 Taxation continued

Reconciliation of movement on deferred tax liability:

	2020 £m	Restated 2019 £m
At 1 January	8.0	8.7
Arising on business combination	0.1	—
Retranslation of opening balances	—	—
Prior year adjustments in respect of deferred tax liabilities	(0.9)	—
Reversal of temporary differences arising on the amortisation of intangibles	0.2	—
Other temporary differences arising in the period	(0.2)	(0.7)
<b>Deferred tax liability at 31 December</b>	<b>7.2</b>	<b>8.0</b>

The deferred tax asset of £9.6m (2019: £8.3m) and liability of £7.2m at 31 December 2020 (2019: £8.0m) have been calculated based on the applicable tax rates in the UK and overseas territories.

In relation to the movement on deferred tax assets and liabilities during the year, a credit of £0.9m has been recognised through the income statement and a credit of £1.1m has been recognised through equity, with the latter giving rise to additional losses generated as a consequence of the exercise of employee share option awards during the year (see note 19).

## 9 Dividends

	2020 £m	2019 £m
No final ordinary dividend was paid for the year ended 31 December 2019 (year ended 31 December 2018: 7.0 pence per share)	—	6.3

The Group will not be recommending a final dividend for the year ending 31 December 2020 (2019: £nil)

## 10 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 of property, plant and equipment over their estimated useful economic lives as follows:*

<i>Leasehold improvements</i>	<i>the lower of 10 years or the lease term on a straight line basis</i>
<i>Computer equipment</i>	<i>4-5 years on a straight line basis</i>
<i>Fixtures and fittings</i>	<i>20% reducing balance</i>

*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.*

*For accounting policies in respect of right-of-use assets, refer to note 2.*

## 10 Property, plant and equipment continued

	Leasehold improvements £m	Computer equipment £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
As at 1 January 2019	5.6	31.0	3.5	40.1
Additions	2.6	2.6	0.4	5.6
Disposals	—	(1.5)	(0.3)	(1.8)
Effect of transition to IFRS 16	(0.5)	—	—	(0.5)
Effect of movements in exchange rates	0.1	(1.1)	(0.1)	(1.1)
<b>As at 31 December 2019</b>	<b>7.8</b>	<b>31.0</b>	<b>3.5</b>	<b>42.3</b>
Additions	0.4	4.1	—	4.5
Disposals	(0.3)	(13.1)	(0.2)	(13.6)
Effect of movements in exchange rates	0.2	0.4	—	0.6
<b>As at 31 December 2020</b>	<b>8.1</b>	<b>22.4</b>	<b>3.3</b>	<b>33.8</b>
<b>Accumulated depreciation:</b>				
At 1 January 2019	(2.3)	(26.7)	(2.0)	(31.0)
Charge for the year	(0.7)	(2.2)	(0.4)	(3.3)
Disposals	—	1.5	0.1	1.6
Effect of movements in exchange rates	0.2	1.1	0.1	1.4
<b>At 31 December 2019</b>	<b>(2.8)</b>	<b>(26.3)</b>	<b>(2.2)</b>	<b>(31.3)</b>
Charge for the year	(0.8)	(2.7)	(0.3)	(3.8)
Disposals	0.3	13.1	0.2	13.6
Effect of movements in exchange rates	—	(0.4)	—	(0.4)
<b>At 31 December 2020</b>	<b>(3.3)</b>	<b>(16.3)</b>	<b>(2.3)</b>	<b>(21.9)</b>
<b>Net book value:</b>				
<b>As at 31 December 2020</b>	<b>4.8</b>	<b>6.1</b>	<b>1.0</b>	<b>11.9</b>
<b>As at 31 December 2019</b>	<b>5.0</b>	<b>4.7</b>	<b>1.3</b>	<b>11.0</b>

## 11 Intangible assets

### Accounting policy

#### Intangible assets

*Intangible assets are carried at cost less accumulated amortisation and 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 when the software is substantially complete and ready for its intended internal use.*

## 11 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 are amortised on a straight line basis over their estimated useful life, which for the assets currently held by SDL, is 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 13).

#### **Other purchased intangible assets**

- Software – between 5 and 10 years on a straight line basis.

*The amortisation expense on all 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 cash generating unit (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.*

#### **Research and development**

*Research costs are expensed as incurred. Development expenditure is capitalised when management is satisfied that the expenditure being incurred meets the recognition criteria from IAS 38. Specifically, this is at the point which management believe they can demonstrate:*

- The technical feasibility of completing the asset,
- The intention to complete the asset for use or sale,
- The ability to use or sell the asset,
- The future benefits expected to be realised from the sale or use of the asset,
- The availability of sufficient resources to enable completion of the asset,
- Reliable measurement for the costs incurred during the course of development.

*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 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 3 to 5 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.*

The Group's material unamortised customer relationship balances are wholly the balances identified as part of the acquisition of DLS in 2018, the intangibles are amortised over 15 years and are expected to be fully amortised in 2023. There were no individual items of intellectual property with a material net book value.

The Group's capitalised software costs mainly relate to development expenditure on the Group's 'Helix' platform which is a key part of the Group's language delivery model. The net book value of capitalised development in respect of the Helix platform is £11.5m. Software is amortised over a period of 10 years, since development expenditure is based on feature development and improvements, the remaining amortisation period varies by underlying feature improvement and the weighted average period left to amortise is 8 years.



## 11 Intangible assets continued

	Customer relationships £m	Intellectual property £m	Goodwill £m	Capitalised development £m	Software £m	Total £m
<b>Cost:</b>						
At 1 January 2019	48.3	64.9	235.3	10.1	11.3	369.9
Additions	–	–	–	7.5	2.4	9.9
Re-measurement of goodwill	–	–	(1.2)	–	–	(1.2)
Disposals	–	–	(17.1) <sup>1</sup>	–	–	(17.1)
Effect of movements in exchange rates	(1.5)	(2.0)	(5.9)	–	–	(9.4)
<b>At 31 December 2019</b>	<b>46.8</b>	<b>62.9</b>	<b>211.1</b>	<b>17.6</b>	<b>13.7</b>	<b>352.1</b>
Additions	–	–	–	8.0	2.6	10.6
Disposals	–	–	–	–	–	–
Effect of movements in exchange rates	–	0.4	0.8	–	–	1.2
<b>At 31 December 2020</b>	<b>46.8</b>	<b>63.3</b>	<b>211.9</b>	<b>25.6</b>	<b>16.3</b>	<b>363.9</b>
<b>Amortisation:</b>						
At 1 January 2019	(18.5)	(60.8)	(65.9)	(1.1)	(0.7)	(147.0)
Charge for the year	(2.0)	(2.4)	–	(3.9)	(1.2)	(9.5)
Disposals	–	–	17.1 <sup>1</sup>	–	–	17.1
Effect of movements in exchange rates	0.5	2.0	–	–	–	2.5
<b>At 31 December 2019</b>	<b>(20.0)</b>	<b>(61.2)</b>	<b>(48.8)</b>	<b>(5.0)</b>	<b>(1.9)</b>	<b>(136.9)</b>
Charge for the year	(2.0)	(1.1)	–	(5.9)	(1.5)	(10.5)
Disposals	–	–	–	–	–	–
Effect of movements in exchange rates	0.1	(0.3)	–	–	–	(0.2)
<b>At 31 December 2020</b>	<b>(21.9)</b>	<b>(62.6)</b>	<b>(48.8)</b>	<b>(10.9)</b>	<b>(3.4)</b>	<b>(147.6)</b>
<b>Net book value</b>						
At 31 December 2020	24.9	0.7	163.1	14.7	12.9	216.3
At 31 December 2019	26.8	1.7	162.3	12.6	11.8	215.2

1 In 2019, the Group has written off goodwill relating to non-core which was fully impaired and disposed of in prior periods.

## 12 Investments in subsidiaries

Details of the investments which the Group or Company holds are included below. All investments are 100% owned. All subsidiaries are indirectly held except for:

- *SDL Poland sp zoo*
- *SDL Multilingual Solutions Private Ltd*
- *SDL Software Technology (Shenzhen) Ltd*
- *SDL France SARL*
- *SDL Global Holdings Ltd*
- *SDL Turkey Translation Services & Commerce Ltd*
- *SDL Chile SA*
- *SDL do Brazil Global Solutions Ltda*
- *SDL Portugal Unipessoal LDA*
- *SDL Nominees Ltd*

Full details regarding these and the other indirectly held subsidiaries of the Group can be found on the following page:

## 12 Investments in subsidiaries continued

Name of Company	Registered address of business	Country of Incorporation
<b>Holding Company and other entities</b>		
SDL MLS GmbH	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Holdings BV	Jupiter Plaza Arena, Herikbergweg 78-80, 1101 CM, Amsterdam	Netherlands
SDL Nominees Ltd <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL Global Holdings Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Automated Language Processing Services Ltd <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Interlingua Group Ltd <sup>2</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alterian Holdings Ltd <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Intrepid Consultants Ltd <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alpnet UK Ltd <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Computype Ltd <sup>1</sup>	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
Alterian Holdings Inc	Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle	USA
<b>Language Services</b>		
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 Paulo	Brazil
SDL International (Canada) Inc	1155 Metcalfe St, Suite 800, Montreal, Quebec, Canada H3A 1X6	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	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Hellas MEPE	Philippou 6, Metamorfosi, Athens 144 51, Greece	Greece
SDL Hong Kong Ltd	c/o Clarson Services Limited, 11th Floor, Three Exchange Square, 8 Connaught Place, 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
PT SDL Indonesia Solutions	Revenue Tower, FR26, Jakarta, 12190, Indonesia	Indonesia
SDL Italia Srl Unipersonale	Via Stradella 165, Roma 00124, Italy	Italy
SDL Luxembourg SARL	26 Boulevard Road, Office 125, L2449, Luxembourg	Luxembourg
SDL Netherlands BV	Jupiter Plaza Arena, Herikbergweg 78-80, 1101 CM, Amsterdam	Netherlands
SDL Poland Sp zoo	Ul. Fordonska 246, 85 766 Bydgoszcz	Poland
SDL Portugal Unipessoal LDA	Rua Santo Antonio Contumil, no-130, Porto Concelho, Porto, Portugal	Portugal

## 12 Investments in subsidiaries continued

Name of Company	Registered address of business	Country of Incorporation
LLC SDL Rus	Office 1301, 'A' Building 2, Zanervsky, Prospect 71, 195112 St Petersburg, Russia	Russia
SDL Multi-Lingual Solutions (Singapore) PTE Ltd	c/o BDO LLP, 600 Northbridge Road, #23-01 Portview Square Singapore 188788	Singapore
SDL doo Ljubljana	Ulica Jozelka Jame 14, 1210 Ljubljana	Slovenia
Software Development Language Solutions, Hispania, SL	Calle Goya 8, 28001, Madrid, Spain	Spain
Software Documentation Localization Spain, S.L.	Calle/Andres Segovia, no 53, 4 Planta, Edificio, Be Business, CP18008 Granada	Spain
SDL Sweden AB	Fatburgsgatan 1, Stockholm, S-118 28 Sweden	Sweden
SDL Turkey Translation Services and Commerce Ltd	Kosnyola Mahalles, Mahmut, Ksari Caddesi, No 51, Ksnyola 834718, Istanbul	Turkey
SDL Sheffield Limited	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
<b>Language Services and Technology</b>		
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	c/o Whitney Moore, 2 Shelbourne Building, Crampton Avenue, Shelbourne Road, Ballsbridge, Dublin 4, Dublin	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
<b>Technology</b>		
SDL Technologies (Australia) Pty Ltd	Nexia Sydney Pty Ltd, Level 16, 1 Market Street, Sydney, NSW 2000	Australia
SDL Passolo GmbH <sup>1</sup>	Waldburgstrasse 21, 70563, Stuttgart	Germany
Trados GmbH <sup>1</sup>	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Verwaltung GmbH <sup>1</sup>	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Tridion GmbH <sup>1</sup>	Balanstrasse 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 <sup>1</sup>	Jupiter Plaza Arena, Herikbergweg 78-80, 1101 CM, Amsterdam	Netherlands
SDL Xopus BV <sup>1</sup>	Jupiter Plaza Arena, Herikbergweg 78-80, 1101 CM, Amsterdam	Netherlands
Language Weaver SRL	Scala Office Building, Floors 4-7, 34 Somesuluist, Cluj-Napoca, Romania	Romania
SDL Tridion Hispania SL	Lopez de Hoyos 35, 1a Planta, 28002 Madrid, Spain	Spain
SDL Sweden AB	Fatburgsgatan 1, Stockholm, S-118 28 Sweden	Sweden
LLC SDL Ukraine	Business center SP Hall Office 604, 28 A Stepana Bandery Avenue Kiev, Ukraine 04073	Ukraine
Bemoko Consulting Limited <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL Tridion Ltd <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
XyEnterprise Ltd <sup>1</sup>	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alterian Technology Ltd <sup>1</sup>	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 Vietnam Limited	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.

## 13 Impairment testing of goodwill and intangibles

### Accounting policy

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

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 of 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 annually 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 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 CGU. 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 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	2020 £m	2019 £m
Language Services	42.0	41.5
Language Technologies	55.8	56.4
Content Technologies	65.3	64.4
	<b>163.1</b>	<b>162.3</b>

For the year ended 31 December 2020, the Directors have reviewed the value of goodwill based on Internal value in use calculations. The key assumptions for these calculations are discount rates, growth rates and gross profit margins. 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 and are extended to years 4 and 5. The growth rates and gross profit margins for the five-year period are based on Directors expectations of the medium-term operating performance of the CGU, planned growth in market share and industry forecasts. Growth in the market and specific regional considerations are in line with past experience.

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

The key assumptions used in the assessments in the year ended 31 December 2020 are as follows:

Assumptions applied	Pre tax discount rate 2020 %	Pre tax discount rate 2019 %
Language Services	14.0	14.0
Language Technologies	15.0	15.0
Content Technologies	14.9	14.9

## 13 Impairment testing of goodwill and intangibles continued

	2020 %	2019 %
Group cost of capital	11.2	11.2
Perpetual growth rate applied to all CGUs	1.8	1.8
Average revenue growth rates for years 1 to 3		
Language Services	4.0	7.0
Language Technologies	3.3	6.5
Content Technologies	4.3	5.1
Year 4 and 5 revenue growth rates		
Language Services	4.0	6.0
Language Technologies	5.0	5.0
Content Technologies	5.0	5.5

### Sensitivity to changes in assumptions

The Directors consider reasonably possible changes in the assumptions above required for the recoverable amount of the Language Services, Content Technologies and Language Technologies operating segments to equal their carrying amounts. The Directors' review takes into account reasonably possible changes as at the balance sheet date.

Of the key assumptions included in the cash flow forecasts, management has identified that a reasonably possible change in the revenue growth applied to each year before perpetuity could significantly impact the impairment test. The change in this assumption to cause the carrying value of each CGU to exceed its recoverable amount are shown below:

	Language Services	Language Technologies	Content Technologies
Recoverable amounts exceeds carrying amount	£98.4m	£55.6m	£78.2m
Reduction in revenue growth rate in each year	2.3%	3.5%	4.8%

Management believe that no reasonably possible change in any other key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

## 14a 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.*

## 14a Trade and other receivables continued

### Trade and other receivables due within one year

	Gross 2020 £m	Provisions 2020 £m	Net 2020 £m	Gross 2019 £m	Provisions 2019 £m	Net 2019 £m
Trade receivables <sup>1</sup>	71.2	(1.0)	70.2	82.6	(2.3)	80.3
Accrued income	14.0	(1.1)	12.9	14.0	(0.5)	13.5
Prepayments and other receivables	15.0	–	15.0	7.8	–	7.8
<b>Trade and other receivables due within one year</b>	<b>100.2</b>	<b>(2.1)</b>	<b>98.1</b>	<b>104.4</b>	<b>(2.8)</b>	<b>101.6</b>
<b>Other receivables due after one year</b>	<b>2.3</b>	<b>–</b>	<b>2.3</b>	<b>2.6</b>	<b>–</b>	<b>2.6</b>

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
<b>2020</b>	<b>70.2</b>	<b>57.2</b>	<b>6.5</b>	<b>2.5</b>	<b>4.0</b>
<b>2019</b>	<b>80.3</b>	<b>57.5</b>	<b>13.4</b>	<b>3.0</b>	<b>6.4</b>

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 2020 and 2019. The Group's collection history suggests no additional impairment provision is deemed necessary. Additional details of the Group's position on credit risk is included as part of Note 22.

### Provision for impairment

As at 31 December 2020, trade receivables at nominal value of £1.0m (2019: £2.3m) were impaired and provided for. In addition, expected credit losses were recognised against accrued income totalling £1.1m (2019: £0.5m). Movements in the provisions for expected credit losses were as follows:

	Trade receivables £m	Accrued income £m
At 1 January 2019	3.6	0.8
Charge for the year	–	–
Released in the year	(0.7)	(0.3)
Utilised in the year	(0.6)	–
<b>At 31 December 2019</b>	<b>2.3</b>	<b>0.5</b>
Charge for the year	–	0.1
Released in the year	(0.9)	–
Utilised in the year	(0.4)	–
<b>At 31 December 2020</b>	<b>1.0</b>	<b>1.1</b>

## 14b 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. The Group has taken advantage of the practical expedient to recognise as an expense, any costs which would be recognised in fewer than 12 months from the date of those costs being incurred. This primarily relates to the Group's Language Services and point in time licence commission amounts, which are recognised in profit or loss as incurred.

Impairment assessments for the capitalised sales commissions are based upon the remaining value and period over which the licence, support and maintenance are being provided. Impairment is charged where the future revenue amounts fall below the value of the capitalised sales commissions.

	2020 £m	2019 £m
<b>Capitalised contract costs</b>		
Capitalised contract costs (over one year)	0.5	0.6
Capitalised contract costs (less than one year)	1.9	2.1
<b>Total capitalised contract costs</b>	<b>2.4</b>	<b>2.7</b>

No impairment has been recognised in respect of capitalised contract costs (2019: £nil). The amount of amortisation recognised through the statement of comprehensive income is £0.9m (2019: £0.8m).

## 15 Trade and other payables

	2020 £m	2019 £m
<b>Trade and other payables due within one year</b>		
Trade payables	7.9	9.0
Other taxes and social security costs	9.7	2.3
Other payables	6.3	4.1
Accruals	39.8	39.4
Deferred income	40.2	37.7
	<b>103.9</b>	<b>92.5</b>
<b>Trade and other payables due after one year</b>		
Deferred income	1.8	1.9

## 16 Cash and borrowings

	2020 £m	2019 £m
<b>Cash</b>		
Cash at bank	51.3	26.3

The fair value of cash and cash equivalents is £51.3m (2019: £26.3m). Restricted cash at 31 December 2020 was £0.4m (2019: £0.4m).

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.

	2020 £m	2019 £m
<b>Net cash</b>		
Cash and cash equivalents	51.3	26.3
Borrowings	—	—
<b>Net cash</b>	<b>51.3</b>	<b>26.3</b>

## 16 Cash and borrowings continued

### Borrowings

On 20 July 2018, the Group signed a five year £70m syndicate revolving credit facility (RCF), expiring on 19 July 2023. The agreement included a £50m accordion (uncommitted) facility. During the year, as part of the all-share combination with RWS, the Group's RCF was terminated early and replaced by similar facilities in the new ultimate parent. As a result, the facility was not in place at the year-end and there were no balances drawn down (2019 - £nil).

Following the all-share combination the Group relies on operating cash flows for financing and, if required, the availability of an RCF held by the Group's new parent company, the Group has sufficient operating cash flows each year to cover liquidity requirements and also holds cash balances sufficient to cover financing of operations for the foreseeable future at the year-end (full details on liquidity risk are included in Note 22).

Movement in debt	2020 £m	2019 £m
At 1 January	–	5.4
Proceeds from borrowings	63.0	26.2
Repayment of borrowings	(63.0)	(31.4)
Cashflows	–	–
Exchange movements	–	(0.2)
At 31 December	–	–

## 17 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, current market estimates of the time value of money and the risks specific to the liability (for which future cash flow estimates have not been adjusted). 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	Other £m	Total £m
At 1 January 2020	1.3	4.0	–	5.3
Charged to the income statement	0.2	2.1	0.4	2.7
Release during the year	(0.1)	(1.1)	–	(1.2)
Transfers	–	–	–	–
Utilised during the year	(0.1)	(1.1)	–	(1.2)
<b>At 31 December 2020</b>	<b>1.3</b>	<b>3.9</b>	<b>0.4</b>	<b>5.6</b>
<b>Current 2020</b>	<b>0.2</b>	<b>0.9</b>	<b>0.4</b>	<b>1.5</b>
<b>Non current 2020</b>	<b>1.1</b>	<b>3.0</b>	<b>–</b>	<b>4.1</b>
Current 2019	0.1	0.1	–	0.2
Non current 2019	1.2	3.9	–	5.1



## 17 Provisions continued

### Property leases

The Group's provisions in respect of property leases are principally the amounts provided for in respect of expected dilapidations payments at the end of the Group's leases. These are not discounted as the effects of discounting on dilapidations are not material. Non-current obligations are payable within a range of one to five years (£0.4m, 2019: £0.3m) and over five years (£0.9m, 2019: £0.8m). Amounts provided are management's best estimate of the likely future cash outflows.

### Tax related

Tax provisions relate to interest and penalties incurred on direct tax assessments and provisions related 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 expected value of future cash outflows. Given the geographic nature of the Group's operations potential tax risks could exist owing to the Group's use of freelancers in a number of locations, as well as the sales taxes environment and the relationships between international language offices around the Group. The Group continues to actively monitor current legislation to ensure compliance in all territories.

## 18 Share capital

Allotted, called up and fully paid	2020 Millions	2019 Millions	2020 £m	2019 £m
Ordinary shares of 1p each				
At 1 January	90.9	90.6	0.9	0.9
– Issued on exercise of share options	0.2	–	–	–
– Issued on exercise of LTIPs	1.4	0.3	–	–
– Issued on placing	–	–	–	–
– At 31 December	92.5	90.9	0.9	0.9

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

- 101,795 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (2010) at a price range of 333.5p to 419.0p.
- 138,817 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes.
- 1,354,461 ordinary shares of 1p were allotted under the SDL LTIP 2016 Scheme.

Full details of the method of settlement for the Group's LTIP scheme is included as part of Note 19.

The following movements in the ordinary share capital of the Company occurred during 2019:

- 148,000 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (2010) at a price range of 333.5p to 419.0p per share for an aggregate consideration of £609,005.
- 71,355 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £235,796.
- 61,689 ordinary shares of 1p were allotted under the SDL LTIP 2016 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.

## 19 Share-based payment plans

### Accounting policy

*Equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices, taking into account the effect of market and non-vesting conditions where appropriate. 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. 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.*

*All outstanding long-term incentive plans (LTIPs) are subject to performance conditions. These include EPS growth and TSR position. 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 based on service and non-market performance conditions. 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 employer's National Insurance expense on employee share option plans are accrued straight line, over the period from date of grant of the option to the end of the performance period.*

Included within administrative expenses is an IFRS 2 charge of £5.1m relating to the Group's employee share schemes (2019: charge of £2.4m). Of this amount, a charge of £2.8m (2019: charge of £Nil) 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 EPS and TSR performance conditions.

During the year, the all share combination with RWS led to the Group's LTIPs scheme triggering a change of control clause included within the 2016 plan. The result of this was that shares currently vesting were accelerated and vested early, specifically vesting on 2 November 2020. There was no modification to the Group's LTIP plan and no change in the fair value of the awards in the year as the terms of the scheme were not modified. The number of shares vested as a result of the change of control clause were time-apportioned based on the remaining duration of the scheme, resulting in a decrease in the number of shares vested. On exercise, SDL shares were issued, net of relevant employee taxes, and immediately transferred to shares in RWS at the same ratio as the all share combination. The value of employee taxes settled was £6.3m. The weighted average share price of the shares at the date of exercise was 690p.

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 expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. The following table lists the key inputs to the model used in the year of grant.

	2020 Monte Carlo	2020 Black-Scholes	2019 Monte Carlo	2019 Black-Scholes
Expected volatility	42.0%	42.0%	37.9%	37.9%
Weighted average fair value at grant date (pence)	372p	482p	364p	521p
Expected life	3 years	3 years	3 years	3 years
Expected dividends	—	—	0.78%	0.78%
Risk-free interest rate	0.10%	0.10%	0.78%	0.78%

## 19 Share-based payment plans continued

	2020 Number	2020 WAEP	2019 Number	2019 WAEP
Outstanding at the beginning of the year	3,637,783	£0.01	3,041,571	£0.01
Granted during the year	1,227,253	£0.01	1,148,984	£0.01
Exercised during the year	(1,354,461)	£0.01	(50,850)	£0.01
Forfeited during the year	(312,773)	£0.01	(501,922)	£0.01
Effects of change of control clause and accelerated vesting	(2,800,621)	£0.01	-	-
Outstanding at the end of the year	397,181	£0.01	3,637,783	£0.01
Exercisable at 31 December	397,181		172,082	

All LTIPs are exercisable at nil cost to the individual (with the exception of the 1p nominal value of each share awarded). The remaining contractual life of shares outstanding at the end of the year is less than one year, with an exercise price of 1p.

## 20 Leases

### Accounting policy

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In the prior year, on transitioning to IFRS16, the Group adopted the modified retrospective approach and utilised all available practical expedients in approaching the transition.

#### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

#### Lease Liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

#### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of certain leasehold property and motor vehicles (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

## 20 Leases continued

### Group as a lessee

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	2020 £m	2019 £m
<b>At 1 January</b>	<b>29.5</b>	<b>30.5</b>
Additions	5.0	3.7
Depreciation expense	(7.5)	(6.0)
Re-measurement adjustments	1.2	0.9
Currency adjustment	0.2	0.4
<b>At 31 December</b>	<b>28.4</b>	<b>29.5</b>

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2020 £m	2019 £m
<b>As at 1 January</b>	<b>32.0</b>	<b>32.5</b>
Additions	5.0	3.7
Accretion of interest	1.9	1.6
Re-measurement adjustments	1.2	0.9
Repayments	(8.0)	(7.0)
Currency adjustment	0.1	0.3
<b>At 31 December</b>	<b>32.2</b>	<b>32.0</b>
Current	8.1	7.6
Non current	24.1	24.4

A full maturity analysis of lease liabilities is disclosed in Note 23.

The following are the amounts recognised in profit or loss as a charge:

	2020 £m	2019 £m
Depreciation expense of right-of-use assets	7.5	6.0
Interest expense on lease liabilities	1.9	1.6
Expense relating to short term leases (included in administrative expenses)	1.5	3.5
Expense relating to leases of low value assets (included in administrative expenses)	0.6	0.6
<b>Total amount recognised in profit or loss</b>	<b>11.5</b>	<b>11.7</b>

The Group had total cash outflows for leases of £10.1m in 2020 (2019: £11.1m). There were no future cash outflows for leases not yet commenced to disclose separately. Additionally, the value of short leases at the end of the reporting period is not materially different from the current year charge for leases covered by a short lease exemption.

The Group has entered into leases with variable lease payments in a number of cases. The variable lease payments are all in respect of rent increases driven by an underlying index or rate. Typically, these index linked payments are in respect of changes in the Consumer Price Index, or similar indexes and rates outside of the United Kingdom. The Group has entered into these agreements as they are standard commercial terms for a number of locations the Group holds property leases, the effects of index linked rent increases was not material for the Group in the current year.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and to align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

The Group will consider all relevant factors when assessing whether or not the Group is reasonably certain to renew or terminate the lease, primarily an assessment of the economic incentives of renewing or terminating that lease, as and when the options become or are becoming exercisable.

## 20 Leases continued

The Group has a high number of property leases to accommodate its language offices, these are global and a number of offices were acquired as part of the acquisition of DLS in the previous year. Because of the number and nature of the Group's property leases, there is no pattern for extending or terminating leases and therefore, lease term must be considered on a lease by lease basis. The Group considers factors like leasehold improvements, when assessing the degree of certainty for exercising any options included in the contract. The Group's leasehold improvements are most heavily concentrated in its highest value leases, each of which has a lease term significantly above the Group's average lease term. The Group has concluded that on this basis, there is no reasonable certainty regarding the exercising of extension options and there is reasonable certainty of not exercising early termination options within these leases. The Group's default position is that the lease term at inception of the lease, excluding any options, is the most probable duration over which that lease will be held. This is then overridden where facts and circumstances make it clear this is no longer reasonably certain.

The Group has concluded that this is not a significant judgement by virtue of the low number and value of leases due to expire shortly and by extension, the low impact of inaccuracy within these judgements on the financial statements.

### Group as a lessor

The Group does not undertake activities as a lessor except as a means of minimising the impact of onerous leases through subleasing to a third party. The Group holds a sublease in respect of a single property only, the rental payments receivable in respect of which were £0.1m (2019: £0.2m).

## 21 Related party disclosures

During the year, SDL Ltd (formerly SDL Plc) was involved in an all-share combination with RWS Holdings Plc, pursuant to which RWS Plc (registered number: 03004625) acquired 100% of SDL Ltd. Accordingly the ultimate parent company of the Group ceased to be SDL Plc and became RWS Holdings Plc. RWS Holdings Plc is a publicly traded company on the LSE's AIM market and according, with no majority share owner, there is no ultimate controlling party to identify. The accounts of SDL Ltd are both the smallest and largest Group accounts under which this company is consolidated at this time, a copy of the accounts can be obtained from SDL Ltd's registered address as disclosed on the Company Information page.

### Compensation of key management personnel of the Group

	2020 £m	2019 £m
Salary and benefits <sup>1</sup>	2.2	1.7
Termination benefits	0.9	—
Pension cost	0.1	0.1
Share based payments	6.0	0.4
<b>Total compensation paid to key management personnel</b>	<b>9.2</b>	<b>2.2</b>

1 - The 2020 figures include Non-Executive Director fees of £0.2m (2019: £0.3m). Full details of the Directors' remuneration is included as part of Note 5 Staff Costs.

With the exception of the transaction noted below, 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 and Non-Executive Directors who have responsibility for planning, directing and controlling the activities of the Group.

At the year-end £6.3m was receivable from RWS Holdings Plc, the Group's ultimate parent company, arising from costs associated with the Group's all-share combination with RWS for settlement of employee taxes on share-based payments. This was treated as a capital contribution. The amounts are included within Trade and Other Receivables on the balance sheet. There were no similar balances in the prior year to disclose and no other material balances with subsidiaries or related parties of the RWS Holdings Plc Group.

## 22 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 3 to 20.

### Interest rate risk

Net cash has increased from £26.3m in 2019 to £51.3m in 2020. Borrowings were £nil (2019: £nil).

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. During the year, the only use of the Group's borrowing facilities have been for working capital management. All amounts borrowed during the year were repaid within the period (see Note 16 for full details of liquidity risk changes following change in control). At the end of 2020, the Group had net cash of £51.3m after deduction of financing liabilities of £nil. Underpinning this philosophy are processes to manage operating cash flow, with a focus on approvals policies for significant cash outlays and credit control.

### Foreign currency risk

A significant amount of business is done with customers in both the USA and Continental Europe with approximately 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.

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 2020, 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.

	2020 £m	2019 £m
Profit before tax:		
+ 1%	(0.5)	(1.1)
- 1%	0.5	1.1
Statement of Financial Position <sup>1</sup> Increase / (decrease) in net assets		
+ 1%	(1.3)	(1.1)
- 1%	1.3	1.2

## 22 Financial risk management objectives and policies continued

The following table demonstrates the trading and translation sensitivity to a 1% change in the Euro exchange rate.

	2020 £m	2019 £m
Profit before tax gain / (loss)		
+ 1%	(0.2)	(0.2)
- 1%	0.2	0.2
Statement of Financial Position <sup>1</sup> increase / (decrease) in net assets		
+ 1%	(1.4)	(1.3)
- 1%	1.4	1.4

1. Based on the Statement of Financial Position at 31 December.

### Economic conditions – credit 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 a provision against trade receivables to reflect specific collection risks identified, being the expected credit losses on those receivables.

## 23 Financial instruments

### 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. Neither the Company nor the Group is subject to externally imposed capital requirements.

### 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:

	2020 £m	2019 £m
<b>Floating rate</b>		
Cash	-	1.0

### Maturity of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020. The table below shows the carrying amount and contractual future undiscounted cash flows for each class of financial liability. Only lease liabilities have a material difference between their carrying amount and contractual future cash flows:

	Carrying amount £m	Less than 12 months £m	Between 2 and 5 years £m	Greater than 5 years £m	Total cash flows £m
<b>2020</b>					
Trade payables	7.9	7.9	-	-	7.9
Accruals	35.1	35.1	-	-	35.1
Lease liabilities	32.2	8.1	20.3	9.3	37.7
<b>Total</b>	<b>75.2</b>	<b>51.1</b>	<b>20.3</b>	<b>9.3</b>	<b>80.7</b>
<b>2019</b>					
Trade payables	9.0	9.0	-	-	9.0
Accruals	33.4	33.4	-	-	33.4
Lease liabilities	32.0	7.6	18.5	7.1	33.2
<b>Total</b>	<b>74.4</b>	<b>50.0</b>	<b>18.5</b>	<b>7.1</b>	<b>75.6</b>

The above tables exclude provisions, deferred income and non-cash settled accruals.

## 23 Financial instruments continued

### Credit risk

The maximum credit risk exposure related to financial assets is £83.3m (2019: £93.9m) represented by the carrying value of trade receivables and accrued income.

The Group's main source of credit risk relates to trade receivables and accrued income. Trade receivables are reviewed for impairment throughout the year, with an approach to provisioning which is based on aging of balances, the specific transaction history with each customer and any other relevant factors which might indicate additional credit risk. In addition to specific provisioning, the Group also maintains an ECL provision which is based on the Group's current year revenue and receivable levels to determine, by reference to an expected default rate, the total provision required against receivables which do not already have specific provisions in place.

The total value of the provision against trade receivables at the year-end was £1.0m (2019: £2.3m). The typical profile of the Group's customers are large companies and well-known brands and accordingly the Group has continued to see a low rate of default in the current year, the Group continues to monitor closely the balance of trade receivables and any required provisions for specific balances and expected credit losses and the total expense for customer defaults for the Group continues to be immaterial.

A 10% movement in the expected default rate used in the Group's determination of the ECL would change the provision by £46,000.

The Group will typically write off balances that are overdue for a period of more than a year if not subject to any kind of enforcement action. The Group uses third parties to assist in the collection of certain Group receivables however the Group does not sell or factor any of its trade receivables or accrued income balances to third parties.

In respect of accrued income balances a provision is established based on a matrix with respect to the estimated completion percentage of the projects, with projects that are further from completion holding larger provisions. The Group also holds an ECL provision for the balance of accrued income held at any point in time. The total provision against accrued income was £1.1m, the total impairment charge for accrued income in the current year is immaterial.

### 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 discounting is required, the group does not hold any assets or liabilities at a fair value measure as defined on the fair value hierarchy defined in IFRS13.

There are no hedging arrangements in place as at 31 December 2020 (2019: None).

## 24 Post balance sheet events

There were no Post Balance Sheet Events which would require disclosure at the time of signing these financial statements.

## 25 Contingent liabilities

The Company and its subsidiaries have provided guarantees and indemnities in respect of tax and rent balances issued by financial institutions on its behalf amounting to £2.0m in the ordinary course of business. These are not expected to result in any material financial loss.



## Company Statement of Financial Position

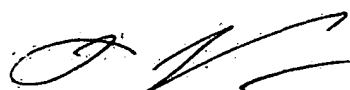
at 31 December 2020

	Notes	2020 £m	2019 £m
<b>Fixed assets</b>			
Intangible assets	4	16.6	14.9
Tangible assets	3	3.8	3.9
Investment in subsidiaries	5	228.3	226.4
Right of use assets	11	10.6	12.4
		<b>259.3</b>	<b>257.6</b>
<b>Current assets</b>			
Debtors (amounts falling due in more than one year £64.1m, 2019: £69.5m)	6	223.1	232.7
Cash at bank and in hand		41.7	14.3
		<b>264.8</b>	<b>247.0</b>
<b>Creditors: amounts falling due within one year</b>			
Creditors	7	(209.8)	(193.8)
Lease liabilities	11	(2.2)	(2.3)
		<b>(212.0)</b>	<b>(196.1)</b>
<b>Net current assets</b>		<b>52.8</b>	<b>50.9</b>
<b>Total assets less current liabilities</b>		<b>312.1</b>	<b>308.5</b>
<b>Creditors: amounts falling due after more than one year</b>			
Creditors	9	(96.8)	(91.9)
Lease liabilities	11	(10.4)	(11.8)
<b>Provisions for liabilities</b>	10	(2.5)	(2.3)
<b>Net assets</b>		<b>202.4</b>	<b>202.5</b>
<b>Capital and reserves</b>			
Called up share capital		0.9	0.9
Share premium account		137.6	136.8
Profit and loss account		63.9	64.8
<b>Total equity</b>		<b>202.4</b>	<b>202.5</b>

Under s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Statement of Comprehensive Income (loss). The loss dealt within the financial statements of the Parent Company is £6.6m (2019: profit of £4.9m).

Approved by the Board of Directors on 27 May 2021.

Company Number: 02675207



Des Glass  
Director

## Company Statement of Changes in Equity

for the year ended 31 December 2020

	Share capital £m	Share premium account £m	Profit and loss account £m	Total £m
<b>At 1 January 2019</b>	<b>0.9</b>	<b>136.0</b>	<b>64.1</b>	<b>201.0</b>
Profit for the period	—	—	4.9	4.9
Issue of shares	—	0.8	—	0.8
Dividend paid	—	—	(6.3)	(6.3)
Currency translation differences on net investments	—	—	(0.1)	(0.1)
Share-based payments	—	—	2.3	2.3
Share-based payments (deferred tax)	—	—	(0.1)	(0.1)
<b>At 31 December 2019</b>	<b>0.9</b>	<b>136.8</b>	<b>64.8</b>	<b>202.5</b>
Profit for the period	—	—	(6.6)	(6.6)
Issue of shares	—	0.8	—	0.8
Dividend paid	—	—	—	—
Currency translation differences on net investments	—	—	(0.1)	(0.1)
Share-based payments	—	—	5.1	5.1
Share-based payments (deferred tax)	—	—	0.7	0.7
<b>At 31 December 2020</b>	<b>0.9</b>	<b>137.6</b>	<b>63.9</b>	<b>202.4</b>

## Notes to the accounts

for the year ended 31 December 2020

### 1 Accounting policies

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

#### Basis of preparation

The financial statements are prepared under the historical cost convention as modified for certain items which have been measured at fair value, namely financial instruments. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Accounting Standards in compliance with the requirements of the Companies Act 2006, and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own statement of comprehensive income / (loss).

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 Statement of Financial Position 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.
- IFRS 16 Leases
- Certain disclosures required by IFRS 15 Revenue from Contracts with Customers
- The Company proposes to continue to use the reduced disclosure framework of FRS 101 in its next financial statements.

The company is exempt from disclosing information concerning auditors' remuneration for non-audit services required by regulation 5(1)(b) of The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008 as this information is presented in the group accounts on a consolidated basis, see Note 4 to the Group's accounts.

#### 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 Group 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. Note 2 to the Group financial statements includes more details on the Directors' assessment of Going Concern for the entity and the Group.

#### Application of new and amended standards and interpretations

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 Company:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 Business Combinations: Definition of a Business
- Amendments to IAS 1 and IAS 8 Definition of Material
- Amendments to IFRS 9, IAS 37 and IFRS 7 Interest Rate Benchmark Reform
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

## 1 Accounting policies continued

### 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

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

### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. The currency translation differences on retranslation of the foreign branches at the balance sheet date are recognised in other comprehensive income.

### 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.

#### Provisions for expected credit losses

The Company provides against financial instruments held in accordance with IFRS9 Financial Instruments by holding expected credit loss provisions. The Company employs all the same methods and policies as those disclosed in Note 2 of the Group's financial statements, as well as the notes included as part of Note 23 in respect of trade receivables and accrued income.

Included within the parent company financial statements are expected credit loss provisions against other group companies, which eliminate on consolidation and therefore do not feature in the consolidated accounts. The expected credit loss provision against intercompany receivables is calculated by reference to the cash held by the group company in question, the annual earnings of the subsidiary and lastly where necessary, the net assets available within the group company.

Where group companies can repay the receivable over time, the ECL maintained is limited to the losses arising on discounting the future cash flows anticipated in repaying that balance. Where repayment is not possible, the ECL maintained is based upon the amount by which the recoverable amount of the receivable exceeds the realisable value of any assets held by the corresponding group entity.

Where group entities hold a sufficient cash position to repay the balance immediately at the balance sheet date, no expected credit loss provision is maintained. The group considers the repayment of any receivable balances net against any payable balances with the same counterparty on the basis that the Group permits net settling of balances between group entities.

## 1 Accounting policies continued

### 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 statement of comprehensive income 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

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.

The specific application of the five step principles of IFRS 15 as they apply to the Company's revenue contracts with customers are explained below at an income stream level. In addition to this, the individual performance obligations identified within the Group's contracts with customers are individually described as part of this note to the financial statements.

### Multi-element arrangements

For multi-element arrangements, revenue is allocated to each performance obligation based on stand-alone selling price, regardless of any separate prices stated within the contract. This is most common within the Company's contract for licences, which may include performance obligations in respect of the licences, support and maintenance, hosting services and professional services. The Group's software licences are either perpetual, term or software as a service (SaaS) in nature. The Group's revenue contracts do not include any material future vendor commitments and thus no allowances for future costs are made. The allocation of transaction price to these obligations is a significant judgement, more details of the nature and impact of the judgement are included in Note 2. The identification of the performance obligations within some multi-element arrangements involves judgement, however none of the Group's contracts requires significant judgement in this regard.

For full details of the revenue accounting policy, including performance obligation level details, refer to Note 3 of the Group's financial statements.

### Taxation

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. 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. As referenced in note 2, the Group considers all tax positions separately and uses either the most likely or expected value method of calculation on a case by case basis.

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.

## 1 Accounting policies continued

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.

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' in Note 19, 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.

### 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 (CGUs).

### 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 awarded 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.

## 1 Accounting policies continued

### Significant critical accounting judgements, estimates and assumptions

#### Judgements

##### Revenue – multi-element arrangements

To determine the appropriate revenue recognition for contracts containing multi-elements that include both products and services, we evaluate whether the contract should be accounted for as a single, or multiple, performance obligations. Management is required to exercise a degree of judgement in setting the criteria used for determining when revenue which involves several elements should be recognised and the stand-alone selling price of each element. The Company generally determines the stand-alone selling prices of elements based on prices which are not observable and are therefore based on stand-alone list prices which are then subject to discount. Further detail involved in estimating standalone selling prices for the purpose of allocating the transaction price in multi-element arrangements is provided in Note 3 of the Group accounts.

This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. Licence revenue in the year amounted to £9.9m in 2020 (2019: £9.0m).

##### 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 (see Note 11 of the Group's financial statements). Development costs capitalised during the year amounted to £2.0m.

#### Estimates and assumptions

##### 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.

##### Intercompany impairment

An impairment analysis is performed at each reporting date using to measure expected credit losses in relation to intercompany receivables. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

##### 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 £2.9m (2019: £1.1m).

##### Leases – estimating the incremental borrowing rate

The Company is required to use an incremental borrowing rate (IBR) when it comes to measuring lease liabilities, this is because it cannot readily determine the interest rate implicit in the lease. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term with similar security, the funds required for the right of use asset, in a similar economic environment. The IBR therefore reflects what the Group would have to pay, which requires estimation given the lack of any observable rates for the leased properties. There is also estimation where rates need to be adjusted to reflect the terms and conditions of the lease (for example, where a branch lease is denominated in a non-functional currency of the parent company). Further details on leases are disclosed in Note 20 of the Group's financial statements.

## 2 Employee costs

	2020 £m	2019 £m
Wages and salaries	29.6	29.5
Social security costs	4.6	4.0
Defined contribution pension scheme cost	1.4	1.2
Share-based payments expense	3.2	1.3
<b>Total</b>	<b>38.8</b>	<b>36.0</b>

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

	2020 Number	2019 Number
Administration and commercial	250	233
Production	258	251
<b>Total average number of employees</b>	<b>508</b>	<b>484</b>

Details of the remuneration paid to directors of the Group and Company are included in Note 5 to the Group's financial statements.

## 3 Tangible fixed assets

	Leasehold improvements £m	Computer equipment £m	Fixtures and fittings £m	Total £m
<b>Cost</b>				
At 1 January 2020	2.1	4.6	0.4	7.1
Additions	–	1.3	–	1.3
Disposal	–	–	–	–
<b>At 31 December 2020</b>	<b>2.1</b>	<b>5.9</b>	<b>0.4</b>	<b>8.4</b>
<b>Depreciation</b>				
At 1 January 2020	(0.6)	(2.4)	(0.2)	(3.2)
Provided during the year	(0.2)	(1.2)	–	(1.4)
Disposal	–	–	–	–
<b>At 31 December 2020</b>	<b>(0.8)</b>	<b>(3.6)</b>	<b>(0.2)</b>	<b>(4.6)</b>
<b>Net book value</b>				
<b>At 31 December 2020</b>	<b>1.3</b>	<b>2.3</b>	<b>0.2</b>	<b>3.8</b>
At 31 December 2019	1.5	2.2	0.2	3.9



#### 4 Intangible fixed assets

	Capitalised development £m	Software £m	Total £m
Cost			
At 1 January 2020	4.6	13.9	18.5
Additions	2.0	2.6	4.6
Disposals	—	(0.2)	(0.2)
<b>At 31 December 2020</b>	<b>6.6</b>	<b>16.3</b>	<b>22.9</b>
Amortisation			
At 1 January 2020	(1.4)	(2.2)	(3.6)
Provided during the year	(1.5)	(1.3)	(2.8)
Disposals	—	0.1	0.1
<b>At 31 December 2020</b>	<b>(2.9)</b>	<b>(3.4)</b>	<b>(6.3)</b>
Net book value			
<b>At 31 December 2020</b>	<b>3.7</b>	<b>12.9</b>	<b>16.6</b>
At 31 December 2019	3.2	11.7	14.9

#### 5 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 12 of the Group financial statements.

	£m
At 1 January 2020	226.4
Increase in investments	1.9
<b>At 31 December 2020</b>	<b>228.3</b>

The increase in investments for the year represents the share-based payment for employees of the subsidiary companies and other similar transactions.

## 6 Debtors

Debtors:	2020 £m	2019 £m
Trade debtors	7.2	8.7
Amounts owed by Group undertakings (including £60.7m falling due after more than one year, 2019: £68.3m)	199.0	215.4
Corporation tax	0.3	0.3
Deferred tax asset (including £3.4m falling due after more than one year, 2019: £1.2m)	3.4	1.2
Prepayments and other receivables	10.1	5.8
Accrued income	2.9	1.1
Rent and other deposits	0.2	0.2
	<b>223.1</b>	<b>232.7</b>

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

Amounts owed by Group undertakings are governed by their individual loan agreements. The balances are unsecured amounts, which are either repayable on demand or with a fixed future repayment date, the longest of which is in 9 years. The loans have their own defined interest rates for which interest is charged at a rate within a range of 0.5% and 4%.

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

	Recognised 2020 £m	Unrecognised 2020 £m	Recognised 2019 £m	Unrecognised 2019 £m
Depreciation in advance of capital allowances	–	–	–	–
Other short-term temporary differences	0.6	–	0.4	–
Share-based payments	0.1	–	0.4	–
Tax losses	2.7	–	0.4	–
<b>Net deferred tax asset</b>	<b>3.4</b>	<b>–</b>	<b>1.2</b>	<b>–</b>

Reconciliation of movement on deferred tax asset	2020 £m	2019 £m
<b>At 1 January</b>	<b>1.2</b>	<b>0.6</b>
Temporary differences arising in the period (see note 8, Group accounts)	(0.2)	0.2
Recognition of previously unrecognised losses	2.4	0.4
<b>Deferred tax asset at 31 December</b>	<b>3.4</b>	<b>1.2</b>

Additional details on the deferred tax position of the Group can be found in Note 8 of the Group's financial statements.

## 7 Creditors

	2020 £m	2019 £m
<b>Creditors: amounts falling due within one year</b>		
Trade creditors	4.0	3.5
Amounts owed to Group undertakings	183.6	172.1
Corporation tax	–	–
Other taxes and social security costs	5.2	0.8
Other creditors	1.8	1.1
Accruals	9.8	10.4
Deferred income	5.4	5.9
	<b>209.8</b>	<b>193.8</b>

Amounts owed to Group undertakings are governed by their individual loan agreements. The balances are unsecured amounts, which are either repayable on demand or with a fixed future repayment date, the longest of which is in 8 years. The loans have their own defined interest rates for which interest is charged at a rate within a range of 0.5% and 4%.

## 8 Interest bearing loans and borrowings

For details of the Group's borrowings please see Note 16 of the Group financial statements. The facility discussed in note 16 of the Group's financial statements is held by the Parent Company but is no longer in place at the year end.

## 9 Non-current creditors

	2020 £m	2019 £m
<b>Creditors: amounts falling due after more than one year</b>		
Deferred income	0.5	0.3
Amounts owed to Group undertakings	94.9	88.8
Corporation tax	1.4	2.8
<b>Total</b>	<b>96.8</b>	<b>91.9</b>

## 10 Provisions for liabilities

	2020 £m	2019 £m
Property leases	0.7	0.8
Tax related provisions	1.3	1.5
Other provisions	0.5	–
<b>Total</b>	<b>2.5</b>	<b>2.3</b>

### Movement in provisions:

	Provision 1 January 2020 £m	Arising during the year £m	Released during the year £m	Utilised during the year £m	Provision 31 December 2020 £m
Property leases	0.8	–	(0.1)	–	0.7
Tax related provisions	1.5	0.9	(1.1)	–	1.3
Other provisions	–	0.5	–	–	0.5

### 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 (£0.1m, 2019: £0.1m) and greater than five years (£0.5m, 2019: £0.6m). Amounts provided are management's best estimate of the likely future cash outflows. The provision has been discounted using current market estimates of the time value of money and the risks specific to the liability (for which future cash flow estimates have not been adjusted).

## 10 Provisions for liabilities continued

Tax provisions relate to direct, 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. Further details of taxation provisions and policies can be found in Note 8 of the Group's accounts.

## 11 Leases

### Company as a lessee

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Property £m
<b>At 1 January 2020</b>	<b>12.4</b>
Additions	—
Depreciation expense	(1.8)
Re-measurement adjustments	—
Currency adjustment	—
<b>At 31 December 2020</b>	<b>10.6</b>

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2020 £m	2019 £m
<b>As at 1 January</b>	<b>14.1</b>	<b>13.0</b>
Additions	—	1.7
Accretion of interest	0.6	0.6
Re-measurement adjustments	—	0.5
Repayments	(2.0)	(1.8)
Currency adjustment	(0.1)	0.1
<b>At 31 December</b>	<b>12.6</b>	<b>14.1</b>
Current	2.2	2.3
Non-current	10.4	11.8

A full maturity analysis of the Group's lease liabilities is disclosed in the Group accounts in Note 20.

The following are the amounts recognised in the Statement of Comprehensive Income as a charge / (credit):

	2020 £m	2019 £m
Depreciation expense of right-of-use assets	1.8	1.4
Interest expense on lease liabilities	0.6	0.6
Expense relating to short term leases (included in administrative expenses)	—	—
Expense relating to leases of low value assets (included in administrative expenses)	—	—
<b>Total amount recognised in profit or loss</b>	<b>2.4</b>	<b>2.0</b>

The Company had total cash outflows for leases of £2.0m in 2020 (2019: £1.8m). The Company had no non-cash additions to right-of-use assets and lease liabilities in 2020 (2019: None). There were no future cash outflows for leases not yet commenced to disclose separately.

Additional information on the leases held by the Group, including judgements and variable lease payments, is included as part of Note 2 to the Group's accounts.

## **12 Share capital and dividends**

Details of the share capital of the Parent Company can be found in Note 18 of the Group's financial statements.

Details of the dividend payments within the year can be found in Note 9 of the Group's financial statements.

## **13 Related party transactions**

The Company has taken the exemption available under FRS 101 not to disclose transactions with wholly owned Group companies. The Parent Company's related party transactions, key management remuneration and Directors' remuneration are all identical to those disclosed in Note 5 and 21 of the Group's financial statements.

## **14 Commitments and contingencies**

As per Note 12 of the Group's financial statements, SDL Ltd 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.

There are a number of cross Company guarantees in respect of the Group's borrowing facilities in place, for details of the borrowings these guarantees are given against refer to Note 25 of the Group's financial statements.

## **15 Share-based payment plans**

During 2020, the total share-based payment charge amounted to £3.2m (2019: £1.3m). 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. For details of the Group's share-based payment transactions, see Note 19 of the Group financial statements. All share-based payments are equity settled by the Parent Company.

## Alternative Performance Measures (APMs)

### Alternative performance measures

The Board uses a number of alternative performance measures which, are measures that can be directly reconciled to GAAP measures. The Board primarily uses 'adjusted' measures as they exclude the impact of non-recurring transactions which are not part of the normal course of business. Adjusted measures therefore are calculated by removing the impact of exceptional items and amortisation of acquired intangibles.

Adjusted measures used by the Board include:

- **Adjusted operating profit:** operating profit before exceptionals and amortisation of acquired intangibles (reconciled on the face of the income statement).
- **Adjusted profit before tax:** profit before tax before exceptionals and amortisation of acquired intangibles (reconciled below).
- **Adjusted operating cash flows:** operating cash flows before exceptional items (reconciled below).
- **Operating cash conversion:** adjusted operating cash flows as a percentage of adjusted operating profit (reconciled below).
- **Adjusted effective tax rate:** effective tax rate before exceptionals, amortisation of acquired intangibles and exceptional tax (reconciled below).
- **Constant currency:** Prior period underlying measures, including revenue are retranslated at the current period exchange rates to neutralise the effect of currency fluctuations.

### Adjusted profit before tax reconciliation:

	2020 £m	2019 £m
Statutory profit before tax	7.9	29.7
Exceptional items	19.2	3.1
Amortisation of acquired intangibles	3.1	4.4
<b>Adjusted profit before tax</b>	<b>30.2</b>	<b>37.2</b>

### Adjusted operating cash flows reconciliation:

	2020 £m	2019 £m
Adjusted operating profit	33.0	37.2
Depreciation and amortisation from non-acquired intangibles	18.7	14.4
Share based payment expense	5.1	2.4
Net working capital changes	12.6	(4.0)
<b>Adjusted operating cash flows</b>	<b>69.4</b>	<b>50.0</b>

### Operating cash conversion reconciliation:

	2020 £m	2019 £m
Adjusted operating profit	33.0	37.2
Adjusted operating cash flows	69.4	50.0
<b>Operating cash conversion</b>	<b>210%</b>	<b>134%</b>

### Adjusted effective tax rate ('ETR'):

	2020 £m	2019 £m
Tax charge	3.6	7.2
Exceptional tax credit	1.6	—
Tax on amortisation of acquired intangibles	0.7	1.0
Tax on exceptional items (note 6)	1.2	0.8
<b>Adjusted tax charge</b>	<b>7.1</b>	<b>9.0</b>
Adjusted profit before tax	30.2	27.1
<b>Adjusted effective tax rate</b>	<b>23.5%</b>	<b>33.2%</b>

## Alternative Performance Measures (APMs) (continued)

### KPIs

KPIs are those key performance indicators used by management and the Board to monitor the success of the Group. These differ from the Group's alternative performance measures as they are measures that cannot necessarily be calculated from GAAP measures.

The KPIs, reviewed by the Board include revenue growth, gross margin (including language services gross margin), and Free Cash Flow. Free cash flow is defined as cash generated from operations after interest and tax costs, maintenance capital expenditure and capitalised research and development costs. Maintenance capital expenditure is the recurring level of capital expenditure required for the business in its current form to operate in medium term and excludes non-recurring investment in capitalised system and infrastructure costs.

Definitions of the Group's other KPIs are set out below:

- **Linguistic productive utilisation:** the percentage of productive time in-house linguists spent on billable work across the financial period

The strategic KPIs set out above have no direct reference to any GAAP measure and hence cannot be reconciled to the Group's financial statements.

Net cash comprises cash and cash equivalents and external borrowings. Net cash excludes lease liabilities.

### Segments

Within the strategic report a segmental performance analysis is provided to assess results between the Group's operating segments, below is the reconciliation of these results to the results as disclosed in the primary statements:

#### 31 December 2020

	Language Services	Language Technologies	Content Technologies	Corporate Costs	Total Group
	£m	£m	£m	£m	£m
Revenue	255.9	52.7	59.9	-	368.5
Gross profit	110.6	40.2	41.6	-	192.4
Administrative expenses	(86.9)	(30.9)	(26.8)	(36.5)	(181.1)
Adjusted operating profit	23.9	9.3	14.8	(15.0)	33.0
Gross Margin	43.2%	76.2%	69.4%	-	52.2%
Adj. Operating Margin	9.3%	17.6%	24.7%	-	9.0%

#### 31 December 2019

	Language Services	Language Technologies	Content Technologies	Corporate Costs	Total Group
	£m	£m	£m	£m	£m
Revenue	262.1	53.6	60.6	-	376.3
Gross profit	112.4	41.1	42.5	-	196.0
Administrative expenses	(83.9)	(30.9)	(26.3)	(25.2)	(166.3)
Adjusted operating profit	28.5	10.2	16.1	(17.6)	37.2
Gross Margin	42.9%	76.7%	70.1%	-	52.1%
Adj. Operating Margin	10.9%	19.0%	26.6%	-	9.9%

## Company information

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