

Allen & Unwin Technology Ltd 2019

SDL*

The intelligent language and content company

Annual Report 2019

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Welcome to SDL

SDL plc is the intelligent language and content company.

With our unique combination of services and technologies, we enable global understanding to connect businesses, customers and stakeholders.

Section 172 statement

The UK Corporate Governance Code 2018 (Code) requires us to explain how the Company has engaged with key stakeholders and how we as a Board have reached key decisions, the impact of those decisions and how we have taken into account the Company's stakeholders.

This Strategic Report and by cross reference, sections of the Governance, Remuneration and Directors' Report, explains how we have taken account of stakeholder views and met the requirements of s172 of the Companies Act. Commentary can be found throughout this 2019 report as follows:

- Our duty to promote the long-term success of the Company, see 'Our strategic framework' on page 3, 'Our business model' on page 12; and Risk management on pages 34 to 38.
- Details of our stakeholder engagement can be found in
 - Creating value on page 14,
 - Employees and the SDL Foundation on pages 30 to 32; and
 - Governance section on pages 40 to 79.
- Our environmental impact can be found on page 33.
- The Remuneration Report details: the Chief Executive Officer pay ratio (page 72); malus and clawback (page 59) and pension contributions (page 67).

Contents

Strategic Report

Our strategic framework	03
Financial and performance highlights	04
Chairman's statement	06
Investment case	07
Chief Executive Officer's review	08
Our business model	12
Market overview	16
Our customers	18
Chief Financial Officer's review	22
Key Performance Indicators	28
Sustainability review	30
Risk management	34

Governance

Chairman's introduction	40
Board of Directors	42
Corporate Governance Report	44
Audit Committee Report	49
Nomination Committee Report	54
Directors' Remuneration Report	56
Remuneration Policy Report	59
Annual Report on Remuneration	66
Directors' Report	75
Statement of Directors' responsibilities	79

Financial statements

Independent Auditor's report	81
Consolidated financial statements and related notes	90
Company financial statements and related notes	130
Alternative Performance Measures	143
Five year Group summary	144
Company information	145

Our strategic framework

Our purpose

To enable global understanding, allowing organisations to communicate with their audiences worldwide, whatever the language, channel or touchpoint.

We work with...

- Over 4,500 enterprise customers
- Including 90 of the world's top brands
- And the majority of the largest companies in our target sectors

To help overcome their content challenges of...

Volume, velocity, quality, fragmentation, compliance and understanding

With our unique combination of...

- Language Services
- Language Technologies
- And Content Technologies

We are building competitive differentiation by...

- Innovating in language services
- Providing next-generation technology and Artificial Intelligence (AI)
- And combining our services and technology into solutions

Whilst transforming our operating model

To automate and streamline our processes and build a data-rich and scalable operation

To create further value for our stakeholders and community by...

- Growing Total Shareholder Returns
- Exceeding our customers' expectations
- Enabling our employees to be their best
- Making a positive contribution to local communities

Financial and performance highlights

Group revenue

£376.3m ↑16%

2019	£376.3m
2018	£323.3m
2017	£287.2m

Group gross profit

£196.0m ↑16%

2019	£196.0m
2018	£168.8m
2017	£150.5m

Net cash

£26.3m ↑83%

2019	£26.3m
2018	£14.4m
2017	£22.7m

Statutory operating profit

£29.7m ↑57%

2019	£29.7m
2018	£18.9m
2017	£17.0m

Cash generated from operations

£47.8m ↑23%

2019	£47.8m
2018	£38.8m
2017	£3.5m

Basic EPS

21.6p ↑26%

2019	21.6p
2018	17.2p
2017	36.8p

Adjusted operating profit¹

£37.2m ↑28%

2019	£37.2m
2018	£29.0m
2017	£24.0m

Adjusted operating cash flow¹

£50.5m ↑11%

2019	£50.5m
2018	£45.6m
2017	£14.2m

Adjusted basic EPS¹

28.1p ↑14%

2019	28.1p
2018	24.7p
2017	20.1p

¹ A reconciliation and definition of these measures is included on page 143.

General notes

- The Group has not restated 2018 figures for the impact of IFRS 16.
- Adjusted profit and earning measures exclude exceptional costs and amortisation of acquired intangibles.
- 2019 figures include the full year impact of the DLS acquisition in July 2018.
- See financial notes for full information.

22

Financial review
Read more here.

4,300+
employees

300+
partners

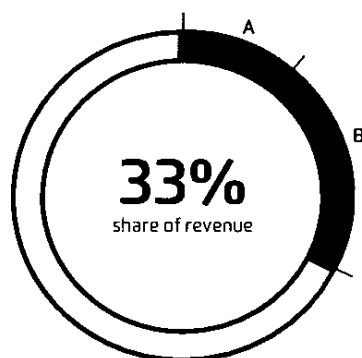
4,500+
enterprise
customers

Revenue by geography

(by location of customer)

EMEA

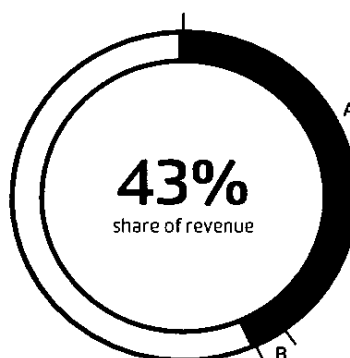
£122.3m



A UK	£42.8m
B EMEA (excluding UK)	£79.5m

Americas

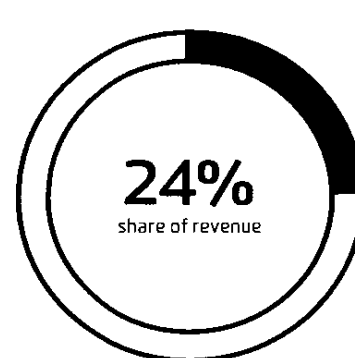
£162.2m



A USA	£150.1m
B Americas (excluding USA)	£12.1m

Asia Pacific

£91.8m



We operate in 39 countries across a diverse range of sectors...

Revenue by industry

High-tech	34%
Life sciences	16%
Retail/travel	11%
Automotive/manufacturing	14%
Financial services	14%
Government/defence	5%
Other	6%

- Premium Services revenues of £100.5m (2018: £63.5m)
- 280 cross-sell and up-sell deals (2018: 220)
- Language Services Repeat Revenue Rate (RRR) of 96% (2018: 97%)
- Annual Recurring Contract Value (ARCV)¹ from technology of £71.9m (2018: £67.5m)
- Average Linguistic Productive Utilisation for 2019 was 67% (2018: 64%)
- Investment of £30.4m on R&D and investment infrastructure
- Cost-saving initiatives delivered annualised savings of £8.5m in 2019

¹ A reconciliation and definition of these measures is included on page 143.

1,400+

in-house
linguists

1.4bn

words annually translated
by Language Services

300bn

machine translated
words annually

Chairman's statement

The Company's strategic decisions and investments are bearing fruit.

David Clayton
Chairman

Meeting our customers' needs

SDL's strategy is to help the world's largest enterprises solve their toughest global content problems, bringing together market-leading expertise and technology. The markets that SDL addresses remain attractive in the long-term, underpinned by inexorable digital content growth and our customers' expansion into new markets. These challenges include the need to manage ultra-high volumes, translate instantly, understand cultural nuance and keep pace with regulations. At our customer conference, Connect 2019, we were delighted to hear from customers that they view SDL as partners and innovators in solving these challenges.

Our transformation programme

SDL's transformation focuses on areas where we have real market leadership, to build a business that can grow faster and generate higher returns. In 2019, the hard work and investments of prior years bore fruit, as we grew premium services revenues, benefited from our business process automation programme and

delivered product innovation. The impact of technology, in particular Neural Machine Translation (NMT), is changing the landscape of localisation. Against this backdrop, we believe that SDL's scale and leading technology solutions give us a meaningful competitive advantage, and a resilient business and operating model.

Global business continuity response

From the end of January 2020, in the wake of public health measures taken by governments worldwide, SDL's Global Business Continuity Plan was implemented to deal first with our locations in Asia, then rolled out across all other affected countries, enabling staff to work from home wherever necessary and remain productive. The effectiveness of our response has been enabled by the significant investments we have made in recent years, particularly in our global IT infrastructure. SDL's priorities and goals are to ensure staff safety and well-being, to maintain all critical business functions, risk management and client servicing

capabilities, which, as I write, have not been significantly affected.

Cash flow, balance sheet and dividend

I am pleased to report that SDL delivered strong operating cash flow during the year, with a solid net cash position of £26.3m at year end. However, to further strengthen our financial position as we enter the period of uncertainty caused by the COVID-19 pandemic, the Board considers it no longer appropriate to recommend a dividend for the FY19. A resolution relating to the 2019 final dividend will consequently not be put to a shareholder vote at the AGM on 26 May. We will revisit our dividend policy when we have sufficient clarity of outlook.

Our employees and Board

Our employees are a key asset. We aim to be the best employer in the industry and to enable our employees to reach their full potential. In 2019, significant programmes were rolled out in leadership

training and promoting our business's culture. We are already privileged to have a diverse workforce in many senses. This diversity makes us stronger and we are determined to be a welcoming business to people from all backgrounds, and one where all talent is helped to flourish. The focus on employee development and culture is proving a valuable investment as our teams globally pull together to adapt to the changing landscape in 2020.

I am pleased to welcome Gordon Stuart to the Board as a Non-Executive Director and Audit Committee Chair designate. Gordon brings financial and strategic skills acquired in the global software and IT Services industries. While Mandy Gradden will continue to serve on the Board during 2020, she will hand over the Chairmanship of the Audit Committee at the 2020 Annual General Meeting. I would like to record my personal thanks to Mandy for the wise counsel, knowledge and commitment she has brought to SDL over the last nine years.

The unstinting commitment of Adolfo, his leadership team and all our employees has been essential to the successful transformation of our business. Although, as a result of the global pandemic, the outlook for 2020 is far less certain than we would have imagined at the start of the year, the team has mounted a fast and co-ordinated response and will take the actions necessary to manage through the coming months as effectively as possible. I would like to thank Adolfo and his team for all their hard work.

David Clayton
Chairman

Investment case

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

Large and growing addressable markets

\$25.6bn
estimated size of Language Services market in 2020

Our primary addressable market is estimated to be worth approximately \$25.6bn in 2020, growing at an annual rate of 5%. We are focused on increasing market share in a fragmented market by building deeper relationships with customers and investing in innovation.

Market leading positions

Top 3
Language Service Provider

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

Large, established client base

90
of world's top 100 brands are SDL customers

SDL is trusted by an exceptional customer base, including 90 of the world's top brands. In 2019, we served over 4,500 enterprise customers, 1,500 Language Service Providers and 14,000 translators.

Investing in innovation

£28.0m
R&D cash spend in 2019

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

Experienced and diverse management team

51%
of our top talent are women

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

Attractive financial growth model

28%
year-on-year growth in adjusted operating profit

SDL delivers high levels of repeat, recurring revenues. Achieving our strategic objectives will support continued revenue growth and improved operating margins. We are committed to a progressive dividend and maintaining a conservative level of debt once the global situation normalises.

Chief Executive Officer's review

In 2019, we delivered growth with key customers, innovative product launches and operational benefits from business process automation, further strengthening our capacity to respond to the changed business environment in 2020.

Adolfo Hernandez
Chief Executive Officer

SDL's transformation

In 2016, SDL began a wide-ranging business transformation programme to re-orientate our offering, go-to-market model and operating platform. Our goals are to position the business into higher growth and more valuable segments and increase business effectiveness and efficiency, leading to improved financial outcomes. In 2019, we made further progress on all three fronts of customer engagement, product innovation and operational excellence.

Our markets

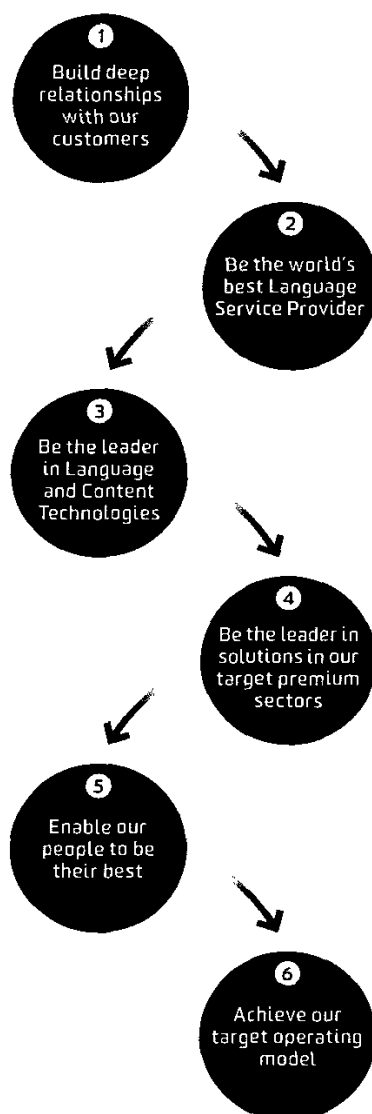
SDL operates in large, global markets and is privileged to work with many of the world's largest and most successful enterprises and organisations, across a wide range of sectors. Our markets are changing and present both challenges and opportunities, as our customers' requirements become more complex 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. In 2019 our customers told us that they see SDL as innovators in the market and we aim to build further on that momentum in 2020 and beyond.

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.

Our strategic objectives



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 2019 we grew our top 10 customer accounts by 30% and our top 20 accounts by 27%, (on a pro forma basis 19% and 17% respectively) and we completed 280 cross-selling or up-selling deals. The Repeat

Revenue Rate in our Language Services business was 96% and the renewal rate across our software businesses was 91%. Our Net Promoter Score, 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), many of whom became our customers through the acquisition of DLS in 2018. The top 10 Regulated Industries customers grew 107% (14% on a pro forma basis) in 2019 due to a strong focus on quality of service and differentiation through technology. 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 2019, 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, leading to underlying improvements in Linguistic Productive Utilisation and Language Services gross margins. In 2020, we will continue to drive the benefits of investment across our Language Services business and to innovate our service lines and solutions to meet our customers' needs.

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.

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.

The most important launch of the year was SDL Language Cloud, our first major new Translation Management platform. This end-to-end cloud solution 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 2020. 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 will be deploying this in products and in our processes in 2020. Finally, we continued to invest across the whole portfolio and look forward to new releases for SDL Trados Studio and SDL Tridion DX in 2020.

Chief Executive Officer's review continued

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. In 2020, we will be extending and launching a number of solutions in areas such as content security and compliance, global brand solutions and business content management. The success of this strategy relies not only on our ability to deliver a joined-up offering but to engage consultatively with our customers and is therefore closely tied to the first strategic objective of deepening customer relationships.

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. We formalised this feedback in our 2019 Employee Survey, which had an 86% response rate and favourable results across all surveyed areas. The biggest single programme in 2019 was the rollout of our Foundations of Leadership training programme, an intensive leadership training course designed and delivered by our in-house teams and taken by nearly 200 of

our colleagues. We invest in promoting a culture which is diverse, inclusive, open and socially-responsible, including encouraging the uptake of volunteering days, which rose by 270% in 2019. In 2020, we will continue to bed in our work on culture, diversity and inclusion, as well as enabling our colleagues with the tools they need to take full advantage of the opportunities to grow within our global business and build progressive careers at SDL.

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 operating costs to 40% of revenues (2019: 42%) 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. In 2019, our three primary areas of focus were the continued roll-out and adoption of Helix, the first stages of our integration of DLS (operating model alignment and back office integration) and the implementation of our 2019 cost-saving plan, which removed £8.5m of annualised

cost from the combined business. Looking ahead to 2020, we plan to complete during the year the full integration of DLS to deliver further operating and financial benefits and, across the business, continue to consolidate the number of systems that our business runs on, standardise and automate our processes and increase our use of data in areas such as real-time and predictive decision-making to optimise performance and productivity.

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.

Responding to the global pandemic

At the end of January 2020, SDL effected its Global Business Continuity Plans in response to COVID-19 pandemic. As I write, SDL has remote working measures in place in all countries subject to public health controls and the majority of SDL's employees are working from home. The substantial majority of tasks that SDL employees perform do not require them to be physically present in any one location and therefore there are no material impacts on our business model. To date, there has been no degradation in SDL's delivery capability for clients and we have received positive feedback from customers about SDL's continued high quality service levels. We continue to work hard to ensure our employees are fully supported in remaining safe, well and able to work.

The effectiveness of our response has been enabled by the significant investments we have made in recent years, which have included: the overhaul of networks, infrastructure and storage; flexible working policies, and global business continuity policies and processes. The adoption of Helix and virtualised applications and storage on the cloud has enabled easier and secure remote working, hand-over of tasks between offices and virtual teaming to preserve service delivery.

In the year to date, SDL has not yet seen a material change in revenue or pipeline but there are signs of slower decision-making. However, it is early days for most of SDL's customers. Therefore, although SDL has a high recurring revenue and the nature of its software products is very sticky, it is prudent to anticipate a reduction in constant currency revenues across SDL's Language Services and technology businesses. The Group has developed a phased plan to offset some of the impact of reduced revenues, depending on the severity and length of the crisis.

Phase one of this plan is expected to reduce costs (cost of sales and operating costs) by £8m in-year compared to budget, through a combination of cost control actions, such as reducing external variable costs and discretionary spend.

Further action on costs will be taken if necessary. Our financial objective is to maintain the short and long-term financial health of the business.

Conclusion

In 2019, we saw many tangible benefits from our transformation and investment activities and we expect these to bring us advantages further in the future. Despite the new challenges we have encountered in 2020, our core strategy remains robust and unchanged. We are strengthening our go-to-market model by focusing on solutions and differentiated value propositions, benefiting also from the addition of the expertise of the former DLS teams. We have invested in our offering, including service innovation and technology portfolio, most notably with the release in 2019 of our next-generation Translation Management Software platform, SDL Language Cloud. Operationally, we have continued with the rollout of Helix and to optimise our back office functions, to make SDL a more automated, scalable, flexible and resilient business.

Today, we are positioned well in large, markets showing long-term growth and with a set of technologies, services and solutions to meet our customers' evolving needs and I believe that the actions taken to date, along with the further work to be undertaken to achieve our strategic objectives in 2020, will create a differentiated and sound business for the long-term.

I would like to thank all my colleagues at SDL yet again for their energy and commitment.

Adolfo Hernandez
Chief Executive Officer

Our business model

We operate a profitable and scalable business model to create value for our stakeholders.

Customer content challenges



Volume



Velocity



Quality



Fragmentation



Compliance



Understanding

The divisions

Language Services

£262.1m

2019 revenues

↑20%

Our services include

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

SDL is one of the world's largest Language Service Providers. We make content relevant and understandable for global audiences by providing a full suite of services, underpinned by our language technologies, including NMT. We operate in 39 countries and have over 770 project managers, 1,400 in-house translators and a pool of over 17,000 freelancers and vendors.

Language Technologies

£53.6m

2019 revenues

↑8%

Our technologies include

- Translation Management Software
- Translation Productivity Software
- NMT and Linguistic AI

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

Content Technologies

£60.6m

2019 revenues

↑10%

Our technologies include

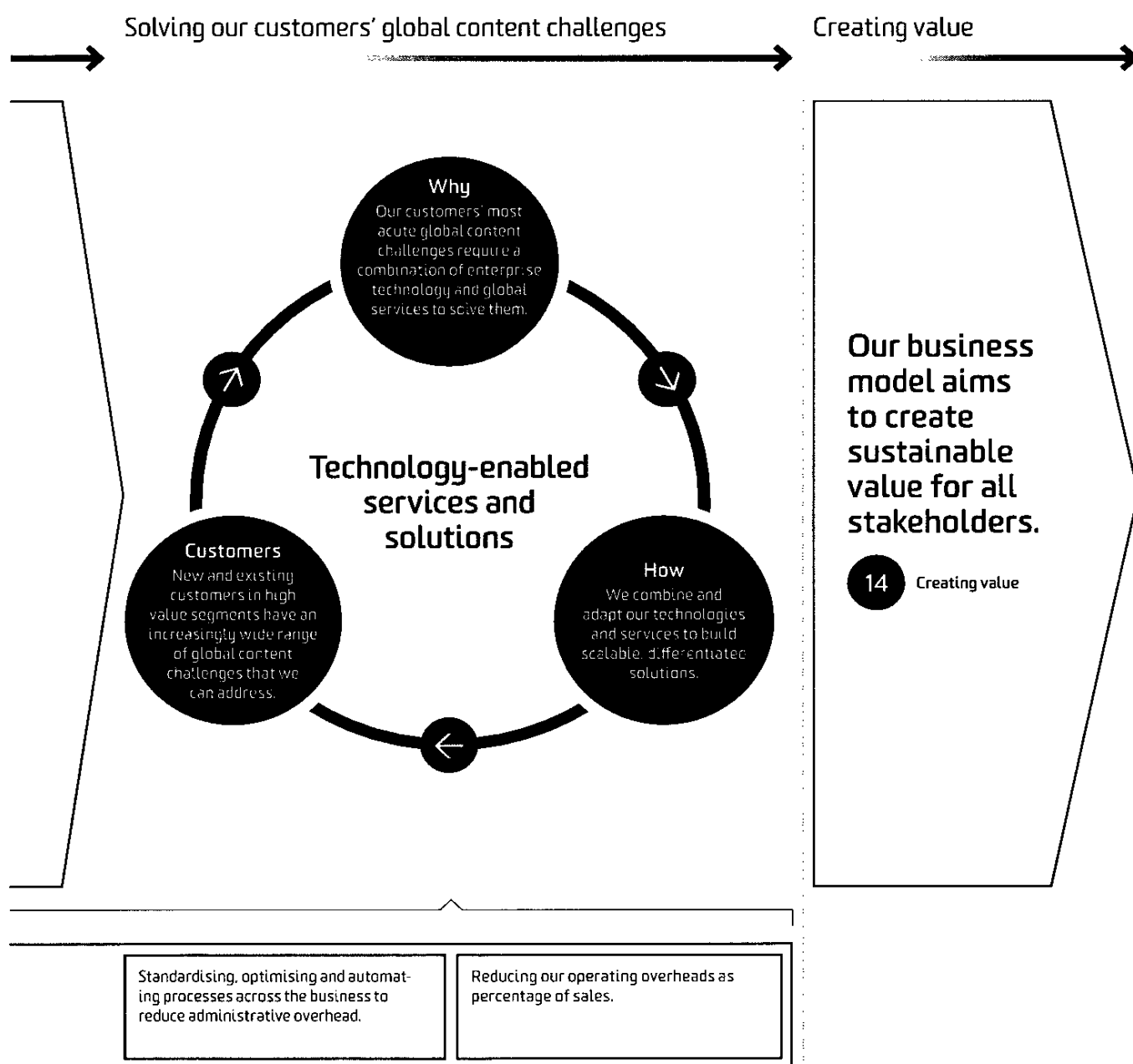
- Web Content Management Software
- Structured and Technical Content Management Software

SDL provides Structured Content and Web Content Management Software, aimed at solving our customers' complex global content challenges. We support our content technologies with professional services and through partners.

Organisational transformation

Building a modern, global organisation

Building and connecting our global systems towards a data-rich, scalable and flexible operating model.



Our business model continued

Creating value

Delivering for our stakeholders,
community and environment.

By enabling global understanding, SDL seeks to deliver value to and build strong, long-term relationships with its stakeholders, wherever they are in the world.



Customers

SDL is in business to deliver outstanding products and services to our customers that make a measurable difference to their sales and operations and to lead them into the future by investing in innovation.

Key challenges

Our customers' needs are changing, becoming more complex and require more technology. It is critically important that we listen closely to our customers, be easy to work with and deliver industry leading innovation.

Engaging with customers

→ 420 attendees at SDL Connect 2019
→ 200 attendees at SDL Global Content Summit, Shanghai

2019 highlights

280

cross-sell deals

3,500+

language customers surveyed

18

Our customers
Read more here.



Communities and environment

It is important to all our stakeholders that SDL takes its responsibilities to its communities and the environment seriously. Our global presence means we are able to be active in supporting local charities and seeing the difference our contributions can make.

Key challenges

SDL is acutely aware of the effect of our business on the environment and is seeking ways to mitigate the impact of energy use, in particular through corporate travel.

Engaging with communities and environment

→ SDL Foundation partnered with 8 charities
→ Achieved 'B' score in latest CDP submission

2019 highlights

478

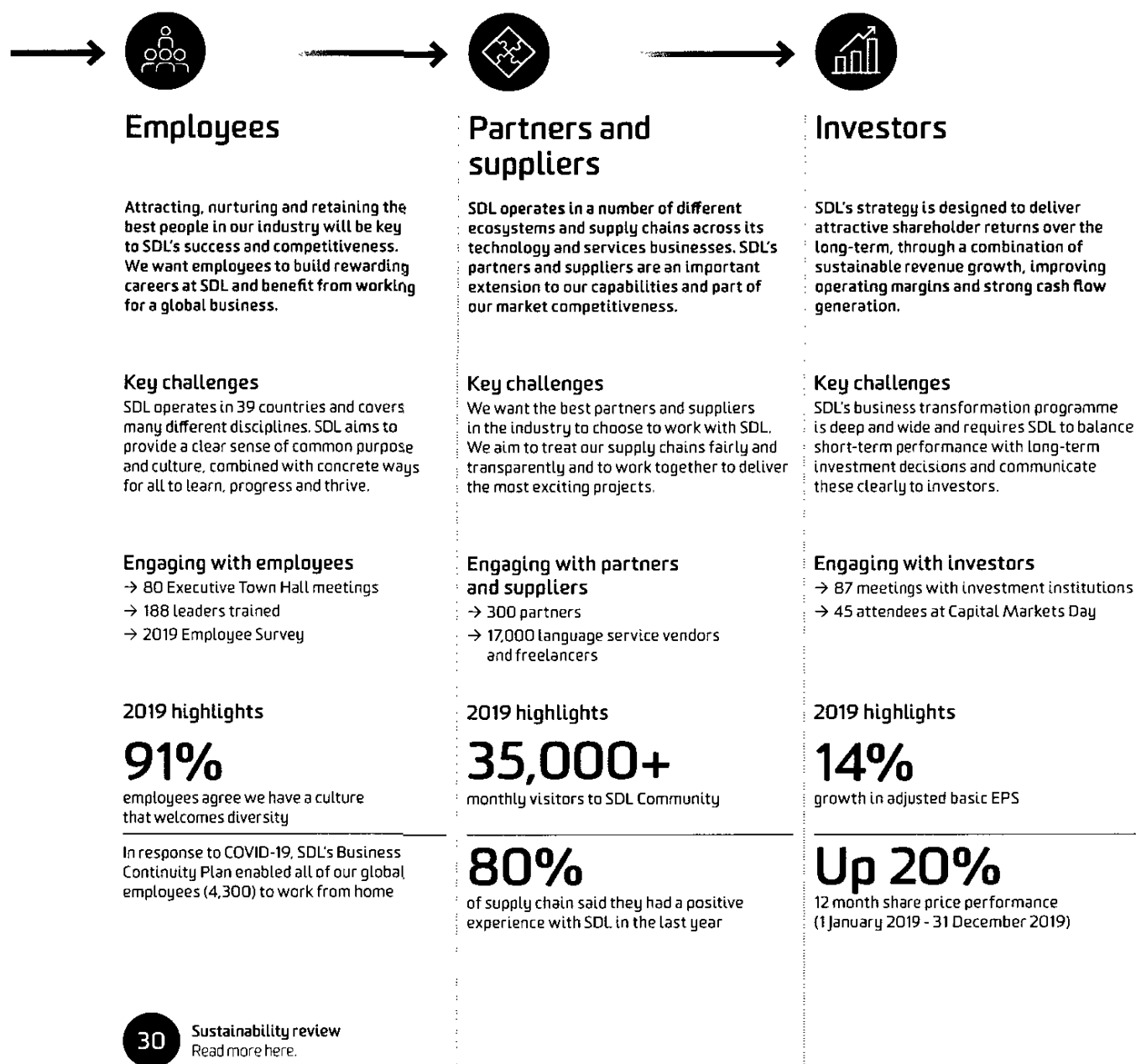
staff volunteering days

22%

reduction in CO₂e tonnes

30

Sustainability review
Read more here.



Market overview

SDL has operated in its markets for 28 years. Our primary Language Services market is estimated to grow from \$23.2bn in 2018 to \$25.6bn in 2020¹. In a digital-first world, our customers see more opportunities to sell and operate globally but must manage the costs and challenges of doing so. SDL is one of the few truly global providers of language and content services and technology that can meet the demands of the world's largest enterprises.

¹ Source: Slatior 2019 Language Services Industry Market Report

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



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

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

① Volumes are rising

Challenge

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

Our solution

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

② Industry-specific needs are rising

Challenge

Content is being produced in all parts of an organisation, such as in marketing, product development, HR, finance and legal departments. Certain industries, such as Financial Services and Life Sciences have additional specific requirements.

Our solution

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

③ Processes are always-on and agile

Challenge

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

Our solution

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

Content explosion and fragmentation

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

Digital transformation

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

Increasing focus on premium sectors

SDL operates across a wide range of sectors but we have increased our focus in the last three years on Regulated Industries and marketing departments. These large sectors benefit from market drivers such as compliance and new revenue generation and provide SDL the opportunity to differentiate through expertise and technology.

Regulated Industries

Sectors

→ Financial Services, Life Sciences and Legal sectors

Market drivers

→ Regulatory compliance, security, cross-border business activity, product launches, digital transformation

SDL offering and differentiators

→ Expert linguists and project managers, secure translation systems, NMT and Linguistic AI

Marketing Solutions

Segments

→ Marketing operations and procurement

Market drivers

→ New market growth, customer engagement, channel fragmentation, content operating model transformation

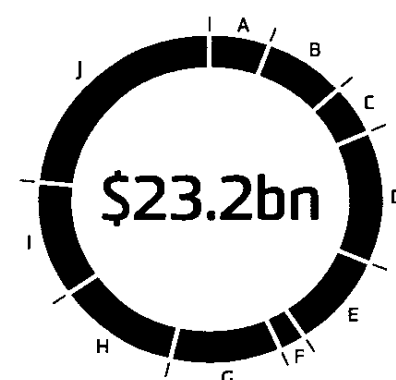
SDL offering and differentiators

→ Global brand services, including transcreation, content production and web content services

The Language Services market by sector

A	Financial Services	\$1.3bn
B	Life Sciences	\$1.8bn
C	Aerospace/defence	\$1.2bn
D	Technology	\$3.0bn
E	Media	\$2.2bn
F	Gaming	\$0.6bn
G	Engineering/manufacturing	\$2.4bn
H	Travel/retail	\$2.7bn
I	Professional Services	\$2.6bn
J	Public sector	\$5.4bn

Source: Slatior 2019 Language Services Industry Market Report



4 Digital experiences must be consistent

Challenge

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

Our solution

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

5 AI quality and adoption is increasing

Challenge

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

Our solution

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

6 Content risk must be managed

Challenge

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

Our solution

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

Our customers

The challenge

To deliver Zwift's 'Fun is Fast' Tour de France TV and social campaign in two weeks across nine markets.

Zwift is a US-based online company that connects cyclists around the world, in the comfort of their homes.

The Zwift app mixes the intensity of training with the pleasure of gaming, offering over 1,000 structured workouts and training plans to make fitness fun.

The solution

SDL Marketing Solutions, through its partnership with MDC Group, worked with Los Angeles-based agency Hecho Studios to deliver a TV and social media campaign for Zwift in two weeks to support its sponsorship of the Tour de France, with the Welsh cycling pro Geraint Thomas heading up the 'Fun is Fast' campaign. SDL provided Zwift with cultural consultation, transcreation, video direction and production, TV and social versioning and adaption, media fulfilment, clearance, traffic and delivery, as well as brand guardianship.

The result was the 'Fun is Fast' campaign launched for the Tour de France, with six advertisements ranging from five to

thirty seconds across nine markets (US, UK, Canada, Australia, South Africa, Russia, France, Germany and Japan) and over six broadcast channels (NBC, Eurosport, ITV, J Sports, Sportsnet and SBS) as well as three social networks (YouTube, Facebook and Instagram). It will now be used for other cycling events throughout the year, featuring other cycling professionals.

The TV and social spots launched simultaneously and were culturally adapted to perfectly suit each markets' requirements – entailing nuanced handling of the tagline, script adaptation, character presentation and advertising/legal standards – all within company brand guidelines.

54 assets
global and local delivered
across TV and social media

10 day
turnaround from post-shoot
completion to delivery

The challenge

To help the U.S. Army support peace in Korea by reducing the language barrier in understanding local personnel and documentation.

U.S. Army personnel stationed in Korea work closely with the Korean Army to maintain peace on the Korean Peninsula. Working together to achieve common understanding can take time as the two armed forces often encounter challenges due to the language barrier.

The solution

The U.S. Army's translation resources are limited so translation efforts often fall short, restricting the division's ability to translate complete thoughts, or convey context. To facilitate better and faster communication, the Army was looking for a solution that:

- Translates documents from Korean to English, and from English to Korean
- Connects with the U.S. Army's chat client software (Transverse Chat Client) via a portal
- Allows for instant translation when communicating in English and Korean using the chat client
- Is available to all personnel at every level
- Is an on-premise solution that can meet security requirements.

SDL provided trial machine translation software to the U.S. Army for testing and assessment. After reviewing, the Army determined that translation quality, the chat client connector and browser-based user interface would meet their needs. The U.S. Army has strict security requirements that all solutions must pass. SDL Machine Translation applied appropriate security settings and met all security criteria for an on-premise solution.

The outcome

U.S. Army computer technicians followed the install instructions for SDL Machine Translation with minimal assistance from SDL technical support. The transverse chat client software was updated to the latest version with the connector to SDL Machine Translation.

Deployment took 1-2 days. While the translation connector on the chat client required manual configuration for each user profile, the translation connector configuration only took a few minutes to complete.

The project delivered the following benefits to the U.S. Army:

- Browser-based UI portal
- Accessible on the classified network
- Portal acts as translation server for chat client used for daily communications
- Chat client allows for instant communication for U.S. and Korean personnel in their native languages, enabling understanding
- On-premise solution that met strict security requirements.

1-2 days
deployment
time

Instant
chat translation
turnaround time

Photograph by U.S. Army Capt. Daniel Parker

Our customers continued

The challenge

To launch a digital strategy across LEAPMOTOR's entire customer experience lifecycle, from researching and configuring vehicles online to post-sale support and in-car displays.

Founded in 2015, LEAPMOTOR is a China-based intelligent electric vehicle enterprise, which wanted to improve its digital experience to increase customer and dealer satisfaction.

The solution

LEAPMOTOR selected SDL Tridion Docs, the industry's number one component-based content management system, to support its digital strategy across the entire customer lifecycle experience, from customers researching and configuring vehicles online and through mobile apps, to in-car displays and voice assistants to post-sale customer support.

The company also chose SDL Tridion Docs to comply with government regulations, disclosing in real-time repair, diagnostics and circuitry information on all its vehicles on public websites.

SDL Tridion Docs provides a foundation to deliver interactive content across online, mobile, in-car and voice assistants, helping to educate and foster deeper relationships

with customers and, the technology is also being used to create a dealer management system (DMS). LEAPMOTOR's network of dealers across China can now directly access vehicle service information, check availability and order spare parts from the manufacturer. This has enabled a faster repair time for any defective vehicles.

The outcome

- Has increased customer and dealer satisfaction, and reduced post-sale queries by 40%, by offering next generation online, mobile and in-car digital experiences with SDL Tridion Docs
- Significantly improved customer experience
- Lowered complaints by 30-40%.

40%
reduction in post-sale queries

30-40%
decrease in complaints

The challenge

To find a translation solution to scale with Best Buy Canada's burgeoning content volume while reducing costs without impacting quality.

Initially Best Buy Canada had an agreement with SDL to translate and publish web stock keeping units (SKUs) in French, 72 hours after the English web SKUs were published. Having achieved success with the initial project, and with the volume of Best Buy Canada's content increasing, the company required a translation solution for all its content, where it could reduce costs without jeopardising quality.

The solution

In 2018, it quickly became apparent that a human-only translation solution would not meet Best Buy Canada's ongoing requirements to scale up translation capabilities to meet growing content localisation needs, while reducing translation costs, maintaining quality standards but also establishing service level agreements.

As a trusted partner, Best Buy Canada came to SDL, who recommended a more scalable workflow solution utilising machine translation (MT) with post-editing for the e-commerce and general content.

Through implementation of an automated workflow, with a process for content submission and retrieval, Best Buy Canada could reduce manual tasks to increase efficiencies while streamlining the entire translation process. Strong project collaboration enabled SDL to understand Best Buy's detailed requirements and meet their expectations.

90%

general content translated with MT

\$80,000

translation savings in one year

Chief Financial Officer's review

Another year of continued financial performance.

Xenia Walters
Chief Financial Officer

Revenue
£376.3m ↑16%

Statutory operating profit¹
£29.7m ↑57%

Adjusted operating profit¹
£37.2m ↑28%

Adjusted basic EPS¹
28.1p ↑14%

Group results

	2019 £m	2018 £m
Revenue	376.3	323.3
Gross profit	196.0	168.8
Adjusted administrative expenses	(158.8)	(139.8)
Adjusted operating profit	37.2	29.0
Amortisation of acquired intangibles	(4.4)	(2.4)
Exceptional items	(3.1)	(7.7)
Statutory operating profit	29.7	18.9
Net finance expense	(2.7)	(0.5)
Tax charge	(7.4)	(3.6)
Profit for the year	19.6	14.8
Adjusted basic EPS	28.1p	24.7p
Statutory basic EPS	21.6p	17.2p
Statutory diluted EPS	21.1p	16.9p

IFRS 16 was adopted with effect from 1 January 2019. The 2018 comparatives have not been restated for the impact of IFRS 16.

¹ A reconciliation and definition of these measures is included on page 143.

This report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). The Group uses these APMs to improve the comparability of information between reporting periods and divisions, 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 used is given on page 143.

Revenue

Group revenue in 2019 was £376.3m, an increase of 16.4% on a reported basis, 13.8% on a constant currency basis and 5.3% on a pro forma basis. Growth came from the full year contribution of the DLS acquisition and continued growth within the underlying business. All divisions delivered year-on-year improvement in revenues.

Gross profit

Gross profit increased 16.1% to £196.0m representing a gross margin of 52.1%. Gross profit margin within SDL's largest division, Language Services, improved from 42.0% in 2018 to 42.9% in 2019, including the impact of the DLS acquisition. Gross profit margin within Language Technologies of 76.7% was lower than prior year of 77.9%, while Content Technologies improved from 69.3% to 70.1%. The margin variation is driven by the mix of licence revenues between SaaS, perpetual and term licences.

Adjusted administrative expenses

Adjusted administrative expenses increased by £19.0m to £158.8m. These expenses exclude the impact of exceptional items and acquisition related amortisation. Incremental administrative expenses

relating to DLS amounted to £10.5m, with the remaining increase in costs driven by cost inflation of £5.1m, increased R&D spend of £5.7m and other costs amounting to £5.2m, such as increased marketing activity, new office costs, professional fees and incremental system operating costs. SDL's 2019 cost-saving programme delivered in-year savings of £5.9m and annualised savings of £8.5m. Over half of these savings were delivered through combining the DLS business into the existing operating model and the balance was generated through facility rightsizing, back-office restructuring and further offshoring. The benefit of £1.6m relating to IFRS 16 is included within general administration expenses and reported within each division.

R&D expenditure includes £20.5m (2018: £17.6m) of operating costs and amortisation of £3.9m (2018: £1.1m). Capitalised development costs of £7.5m (2018: £7.6m) 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 £2.8m to £28.0m. The Group expects to capitalise development costs of approximately £9.0m per annum in the mid-term.

Sales and marketing costs of £56.7m (2018: £52.8m) includes direct costs for specific sales teams as well as general sales and marketing costs which are allocated across the divisions.

General administration expenses of £77.7m (2018: £68.3m) include all of our Group, regional and local support functions. The increase is as a result of acquired DLS costs, IFRS 2 charge (Share-based Payments) and additional variable compensation offset by headcount restructuring savings. The IFRS 2 charge amounted to £2.4m (2018: £1.9m).

Adjusted administrative expenses as a percentage of revenue were 42.2% (2018: 43.2%). 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.

Adjusted operating profit

Adjusted operating profit, which is operating profit before exceptional items and amortisation of acquired intangibles, was £37.2m (9.9% margin), £35.6m on a like-for-like basis pre-IFRS 16 (2018: £29.0m).

Revenue

	2019 £m	2018 £m	Reported growth		Pro forma growth
			At actual rates	At constant currency	At actual rates
Language Services	262.1	218.2	20.1%	17.4%	4.7%
Language Technologies	53.6	49.8	7.6%	6.2%	3.4%
Content Technologies	60.6	55.3	9.6%	6.8%	9.7%
Group	376.3	323.3	16.4%	13.8%	5.3%

Analysis of cost by function

	2019 £m	2018 £m
R&D	24.4	18.7
Sales and marketing	56.7	52.8
General administration	77.7	68.3
Total adjusted administrative expenses	158.8	139.8

Chief Financial Officer's review continued

Amortisation of acquired intangibles

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

Acquired intangibles include software and customer relationships arising from acquisitions. These are amortised over periods of between 18 months and 15 years. The amortisation charge relating to acquired intangibles in 2019 was £4.4m (2018: £2.4m). The £2.0m increase reflects the full year impact of the amortisation of DLS related intangibles.

Amortisation on internally generated assets, namely capitalised development spend and Helix, is treated as an expense in arriving at adjusted operating profit of £37.2m. In general, capitalised development spend is amortised over three years and Helix is amortised over 10 years. By 2021, 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 £3.1m of which £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.*

Acquisition-related costs of £0.1m include costs relating to the integration of marketing teams and acquisition related retention bonuses offset by a £0.9m exceptional credit relating to the settlement of indemnity claims and fair value adjustments.

Other exceptional costs of £0.5m relate to settlement costs in relation to historic tax issues.

Net finance expense

Net finance expense was £2.7m (2018: £0.5m). £1.1m relates to interest and the amortisation of facility fees on borrowings in relation to the DLS acquisition and £1.6m are finance costs on lease liabilities under IFRS 16.

Tax charge and effective tax rate

The Group's tax charge for the year was £7.4m (2018: £3.6m) representing a statutory tax rate of 27.4% (2018: 19.6%).

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%

(2018: 19%), which results in a Group effective rate higher than the headline UK rate. In addition, the prior year included, a one off deferred tax credit on US losses of £1.2m which had an ETR effect of 6%. The effective tax rate going forward is expected to be approximately 25%.

Profit after tax

The Group delivered 32.4% increase in profit after tax to £19.6m driven principally by growth in the Language Service business, which included the full year contribution of the DLS acquisition.

Earnings per share

Basic earnings per share for the year increased from 17.2p to 21.6p, an increase of 25.6%. Adjusted basic earnings per share increased 13.8% from 24.7p to 28.1p.

The weighted average number of shares increased from 86.1m to 90.8m principally due to the equity placing that occurred part-way through 2018 to finance the DLS acquisition.

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.

Segmental performance

	Language Services			Language Technologies			Content Technologies		
	2019 £m	2018 £m		2019 £m	2018 £m		2019 £m	2018 £m	
Revenue	262.1	218.2	20.1%	53.6	49.8	7.6%	60.6	55.3	9.6%
Gross profit	112.4	91.7	22.6%	41.1	38.8	5.9%	42.5	38.3	11.0%
Administrative expenses	(83.9)	(68.7)	22.1%	(30.9)	(29.3)	(5.5%)	(26.4)	(23.4)	(12.8%)
Adjusted operating profit	28.5	23.0	23.9%	10.2	9.5	7.4%	16.1	14.9	8.1%
Gross margin	42.9%	42.0%	90bps	76.7%	77.9%	(120bps)	70.1%	69.3%	80bps
Operating margin	10.9%	10.5%	40bps	19.0%	19.1%	(10bps)	26.6%	26.9%	(30bps)
Operating margin pre IFRS 16	10.4%	10.5%	(10bps)	18.6%	19.1%	(50bps)	26.2%	26.9%	(70bps)

IFRS 16 was adopted with effect from 1 January 2019. The 2018 comparatives have not been restated for the impact of IFRS 16.

Language Services delivered revenue growth of 20.1% to £262.1m. This included the full year contribution of the acquired business of DLS.

Revenue from premium sectors (Regulated Industries and Marketing Solutions) increased by £37.0m to £100.5m (2018: £63.5m) and accounted for 38% (2018: 29%) of total Language Service revenues.

The Group's Regulated Industries practice (Financial Services, Life Sciences and Legal) recorded 11% pro forma growth for 2019, 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 broadly flat year-on-year on a pro forma basis. Positive growth in the Americas region offset weaker demand in European markets due to uncertainty around Brexit, difficult economic conditions in Germany and softening demand within automotive and manufacturing sectors impacting revenues in EMEA.

Language Services gross margin increased to 42.9% (2018: 42.0%) driven by sales mix and productivity gains. Adjusted operating profit was £28.5m (2019: £23.0m) representing a net operating margin of 10.9%. IFRS 16 benefit amounted to £1.2m. 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 where Linguistic Productive Utilisation has increased to 67% for 2019 (2018: 64%).

Language Services Process Automation

The Helix business process automation programme made good progress during the year in the areas of process simplification, automation and data utilisation. The percentage of customers on-boarded to Helix grew from 60% of addressable accounts at the start of the year to 90% by December 2019. This included new client wins, the majority of which are on-boarded to Helix on day one. For 20% of the on-boarded customers, SDL is now able to use 'Straight to Translation' processes, which reduces project management time by up to 25%. Together with improved data on internal and external workloads and vendor performance, SDL has reduced the percentage of external production to 59% of total spend (2018: 62%), despite higher volumes. SDL's use of its data platform, Insight, continues to evolve and increase in sophistication, with data used internally and by some customers.

Language Technologies

This division includes three product groups: Neural Machine Translation, Translation Management Systems and Translation Productivity.

Language Technologies delivered revenue growth of 7.6% to £53.6m. Gross margin was slightly impacted by sales mix and licence type (2019: 76.7%, 2018: 77.9%). Renewal rates were 89% (2018: 88%).

Net administrative expenses of £30.9m were £1.6m higher than 2018 mainly due to incremental R&D spend. Adjusted operating profit of £10.2m represents a margin of 19.0% (2018: 19.1%). The IFRS 16 benefit amounted to £0.2m.

Neural Machine Translation (NMT)

NMT sales grew by 22%. NMT is designed to help customers address two challenges: internal communication and collaboration, and multilingual analytics and content intelligence. 2019 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 major focus of 2019 was the release of SDL's next-generation cloud Translation Management Software, SDL Language Cloud. The cloud-based platform will continue to see further advances in 2020, with a continuous release cycle.

Translation Productivity (SDL Trados)

Year-on-year sales contracted by 4%. 2018 was a strong comparator period due to the 2019 SDL Trados Studio launch in July 2018 and a lower value of upgrade sales in 2019. 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 delivered revenue growth of 9.6% to £60.6m with a strong sales performance in the government and defence sector. Renewal rates were 92% (2018: 89%). Net administrative expenses of £26.4m were £3.0m higher than 2018 due to amortisation on previously capitalised R&D. Adjusted operating profit of £16.1m represents a margin of 26.6% (2018: 26.9%). The IFRS 16 benefit amounted to £0.2m.

Chief Financial Officer's review continued

Cash flow and financing

Adjusted operating cash flow before exceptional items was £50.5m (2018: £45.6m) representing a cash conversion ratio against EBITDA of 98%. Working capital before the impact of exceptional items was an outflow of £1.1m in 2019 compared with an inflow of £11.3m in the prior year principally due to performance on variable compensation plans. The cash impact of exceptional items amounted to £2.7m (2018: £6.8m).

Total capital expenditure of £15.5m includes payments for maintenance capital expenditure (£5.6m), development spend (£7.5m) and investment capital expenditure on Helix (£2.4m). Further Helix enhancements will be delivered in 2020 at a cost of £2m to £3m.

Corporation tax paid amounted to £7.1m (2018: £2.8m), with the increase driven by catch up on historic underpayments in the Group's overseas territories. Tax payable in 2020 is expected to be approximately £7m.

Dividends of £6.3m paid in the year (2018: £5.1m) comprised the dividend for 2018 of 7.0p per ordinary share.

During the year £1.3m was received from Donnelly Financial Solutions in relation to an indemnity claim in respect of DLS.

Cash balances at the year-end amounted to £26.3m with external borrowings of £nil (2018: £19.8m cash and external borrowings of £5.4m).

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 has a five-year £120m multi-currency revolving credit facility (RCF), expiring on 19 July 2023. The agreement also includes a £50m accordion (uncommitted) facility. At 31 December 2019, no amounts were drawn on the facility. In March 2020 £63m was drawn under these facilities to provide surplus cash and reserves.

The Group was in compliance with the financial covenants of its facilities at 31 December 2019 and throughout the year.

Cash flow and net cash

	2019 £m	2018 £m
Adjusted operating profit	37.2	29.0
Depreciation and amortisation from non-acquired intangible	14.4	5.3
Adjusted EBITDA ¹	51.6	34.3
Working capital and share-based payments charge (excluding exceptionals)	(1.1)	11.3
Adjusted operating cash flow from operations before exceptional items	50.5	45.6
Exceptional items	(2.7)	(6.8)
Operating cash flow	47.8	38.8
Maintenance capital expenditure	(5.6)	(2.2)
Capitalised development spend	(7.5)	(7.6)
Interest and taxation paid	(7.8)	(4.2)
Investment capital expenditure	(2.4)	(4.6)
Dividends paid	(6.3)	(5.1)
Receipts / (payments) in relation to DLS (net of cash acquired)	1.3	(59.2)
Repayment of lease liabilities	(7.0)	–
Proceeds from share issues	–	35.4
Proceeds from borrowings	26.0	19.6
Repayments of borrowings	(31.4)	(14.4)
FX	(0.6)	0.6
Net cash inflow / (outflow)	6.5	(2.9)
Opening cash at 1 January	19.8	22.7
Closing cash at 31 December	26.3	19.8

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

Average exchange rates

	2019	2018
Euro (€)	1.14	1.13
US Dollar (\$)	1.28	1.34

Balance sheet and working capital

Net assets at 31 December 2019 increased by £6.9m to £252.5m (2018: £245.6m), following the growth in the business.

Trade and other receivables at 31 December 2019 decreased by £6.7m to £101.6m (2018: £108.3m). Days' sales outstanding (DSO) calculation reflect the number of days' billings in debtors. DSO calculated under this basis was 55 days (2018: 58 days).

Trade and other payables of £92.5m (2018: £105.1m) includes deferred income of £37.7m (2018: £39.8m). Supplier payment days were 24 days (2018: 26 days). Accruals of £39.4m (2018: £46.5m) were lower than the prior year primarily due to variable compensation plans and reduced accruals following the integration of the DLS acquisition.

Impact of IFRS 16

IFRS 16 is the new lease accounting standard and was implemented on 1 January 2019. The most significant impacts of the new accounting standard are the recognition of operating lease liabilities on the balance sheet and the segmentation of the lease charge to depreciation and interest.

As a result of the initial application of IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £30.5m of right-of-use assets and £32.5m lease liabilities as at 1 January 2019.

The Group has elected not to restate the 2018 comparatives in line with the transitional exemptions available. As a result of IFRS 16, the Group has recognised depreciation and interest costs instead of operating lease expense. During the year ended 31 December 2019, the Group recognised £6.0m of depreciation charges and £1.6m of interest costs from these leases.

Brexit impact

The Group operates in a range of end-user markets that may be affected by Brexit developments in the future. Although the outcome of Brexit is difficult to quantify, SDL does not expect the direct consequences of Brexit to have a material impact to the Group. However, there may be other legal, regulatory and commercial ramifications, the likely impact of which are difficult to measure until a final trade agreement is in place between the UK and the EU.

SDL has a Brexit steering group that monitors developments and pays attention to any emerging details relating to changes required by virtue of the UK leaving the EU. The Group is aware that a number of areas will change irrespective of the outcome of negotiations and a number of tax impacts fall into this category. SDL's tax team is reviewing Brexit implications to make sure that tax impacts are integrated into business decision making. Due to the Group's diversified geographical footprint, and the characteristics of the industry sectors in which the Group operates, SDL believes it is well positioned to manage any negative impact.

COVID-19 response

We are closely monitoring the ongoing developments in relation to the COVID-19 pandemic.

We are taking actions to manage short-term cost control and working capital optimisation while ensuring the business remains on a sound footing in the long-term. This includes reducing operational costs, limiting our capital expenditures and optimizing our cash flows.

The Board is taking a prudent approach to preserve the Group's liquidity and cash position, and will not be recommending a final dividend for FY19 at the AGM in May.

Xenia Walters

Chief Financial Officer
14 April 2020

Key Performance Indicators

Measuring our performance

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

Link to strategic objectives

- 1 Build deep relationships with our customers
- 2 Be the world's best Language Service Provider
- 3 Be the leader in Language and Content Technologies
- 4 Be the leader in solutions in our target premium segments
- 5 Enable our people to be their best
- 6 Achieve our target operating model

08

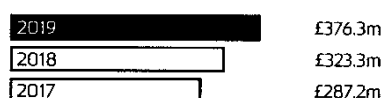
Our strategy
Read more here.



Group revenue

£376.3m

↑16%



Description

Revenue reflects the element of billings recognised in the period.

Performance

Full year impact of DLS acquisition, 13.8% growth at constant currency, 5.3% pro forma growth.



Adjusted operating profit^{1,2,4}

£37.2m

↑28%



Description

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

Performance

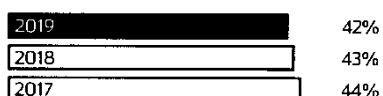
Continued revenue growth and leverage of the cost base contributed to the increase in adjusted operating profit and margin. Impact of IFRS 16, which was adopted in January 2019 is to improve the 2019 adjusted operating profit by £1.6m.



Adjusted administration expenses ratio^{1,4}

42%

↓1%



Description

Adjusted administration expense expressed as a percentage of our revenue.

Performance

We continue to strive for efficiencies as we move to a single, united operating model. In 2019 we have reduced our administrative costs as a proportion of revenue by 1%.



Adjusted operating cash flow^{1,3,4}

£50.5m

↑11%



Description

Cash generated from operations.

Performance

This has increased in the year in line with the settlement of acquisition liabilities and accruals for variable compensation.



Annual recurring contract value ⁴

£71.9m

↑7%

2019	£71.9m
2018	£67.5m
2017	£65.6m

Description

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

Performance

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



Language Services gross margin (SDL + DLS)

42.9%

↑1%

2019	42.9%
2018	42.0%
2017	40.5%

Description

Gross margin achieved in the Language Services division.

Performance

Margin expansion achieved through application of technology (namely Helix and NMT), optimising the inhouse resourcing model for linguists and offshoring non customer facing activities.



Premium revenue as % of Language Services revenue

38%

↑9%

2019	38%
2018	29%
2017	22%

Description

Revenue generated from our premium segments (Financial Services, Legal, Life Sciences and Marketing) as a percentage of Language Services revenue.

Performance

Our progressive move to premium segments continues to gain momentum. 2019 benefitted from a full year of DLS business.

Notes

- 1 The performance of the Group is assessed using a number of alternative performance measures (APMs). Adjusted profitability measures are presented excluding exceptional items and amortisation of acquired intangibles items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance between one period and the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of this reconciliation provided on page 143. In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecasts and the Group's longer-term strategic plans.
- 2 Adjusted operating profit is operating profit before exceptional items and amortisation of acquired intangibles. See financial review for reconciliation.
- 3 Adjusted operating cash flow is cash generated from operations before exceptional items and tax paid.
- 4 A reconciliation and definition of these measures is included on page 143.

Sustainability review

People

Attracting, nurturing, and retaining the best people in our industry is key to SDL's success and competitiveness. Operating in over 39 countries covering many different disciplines, we provide employees with a clear sense of common purpose and culture, combined with concrete ways for everyone to learn, grow and thrive.

Life at SDL

One of the ways we are achieving this ambition is through our work on Life at SDL. Propelled by our People Strategy introduced in 2017, Life at SDL symbolises our culture. It's everything that makes us who we are and how we get things done – how we engage with each other, how we lead others, how we work with our customers, and how we run our business.

Our 2019 Employee Survey, with an 86% response rate, had remarkably favourable results across all surveyed areas. For example, nearly 80% of our employees rated SDL's strategy, innovation and collaboration favourably and over 70% were positive in their views of the way in which operations are run. Favourable opinions were also reported when rating customer engagement (80%), our culture (80%) and the capability of our leaders (85%).

Although our employee survey indicates that SDL has a positive culture, we believe it is important to keep shaping our culture as the Company continues to evolve and grow. With a rallying cry of making Life at SDL a place where everyone can Be their Best, we introduced several culture shaping actions aimed at making SDL the best it can be.

At SDL we want people to reap the benefits of working for a global company by helping them build a rewarding career, which is a cornerstone of Life at SDL and paramount to employee engagement. Our Careers at SDL approach helps achieve this goal, delivering a contemporary approach to internal selection and employee referral. Our next phase will provide employees

with a variety of ways to develop and grow. Learning and development remains a top priority for us – nearly 200 leaders participated in our new Foundations of Leadership Programme and our repeat utilisation rates of our internal learning platform, MyLX, remain strong at over 90%.

Engagement and culture

Alan McWalter, our Senior Independent Director, was nominated as the 'Voice of the Employees' in the boardroom throughout 2019. This initiative builds on our existing solid channels of communication where open, candid, two-way communication is central to the Group's culture.

During 2019:

- over 80 Town Hall meetings were held by our Executive team,
- five Company-wide all hands calls were conducted,
- 50 'View from the Bridge' blogs were penned by the CEO,
- vlogs were introduced,
- a formal employee survey was conducted; and
- employees participated in Chief HR Officer 'chats'.

In addition to the above over 14,000 hours of employee training has been completed and the SDL Foundation has reported increasing levels of participation in charitable activities.

Alan attended Town Hall meetings and breakout sessions with employees in Maidenhead, Amsterdam and Paris and exchanged views across a variety of matters.

Feedback from the 2019 meetings has been shared with the Board. A programme of meetings and topics for discussion over 2020 is being planned to ensure that two-way communication and facilitated dialogue continues between the Board and the workforce, with information feeding into the Board's decision-making process and communications back to the workforce on how the Board has considered and acted on it.

Diversity and culture

Central to Life at SDL is further extending our diverse and inclusive culture. Through our employee survey and focus groups, we learned that women believe they are treated well at SDL. Overall, SDL employs 52% women and 30% of our Executive team is comprised of women.

Plus, during our annual Executive Talent Review and Succession Management process, which covers our senior leaders, 51% of our top talents are female. Yet, we know that diversity and inclusion are far more than embracing gender differences and place a lot of emphasis on ways in which we create work environments where employees from diverse communities can grow, develop and thrive.

Equality

We are committed to providing a working environment in which employees feel valued and respected and are able to contribute to the success of the business, and to employing a workforce that recognises the diversity of its customers.

We invest not only in management training to ensure managers are equipped to support fair working practices, but also in educating all employees to ensure our Code of Conduct is embedded. Our employees should be able to work in an environment free from discrimination, harassment and bullying, and that employees, job applicants, customers, and suppliers should be treated fairly regardless of:

- race, colour, nationality, ethnic or national origins;
- gender, sexual orientation, marital or family status;
- religious or political beliefs or affiliations;
- disability, impairment or age
- membership of a trade union; and
- that they should not be disadvantaged by unjust or unfair conditions or requirements.

We aim to ensure that applications for employment from people with disabilities and other under-represented groups are given full and fair consideration and that all employees have access to the same training, development and job opportunities.

Every effort is also made to retrain and support employees who suffer from disabilities during their employment, including the provision of flexible working via the agile working system to assist their return to work.

The Nomination Committee, as the Board Committee responsible for diversity issues across the Group, oversees policies and performance on diversity.

Whilst we are confident that there is no systematic gender bias in its recruitment or remuneration practices, we are conscious of the underrepresentation of women at senior levels and we are working to erode the gender pay gap over time by increasing female representation at senior levels.

Health and safety

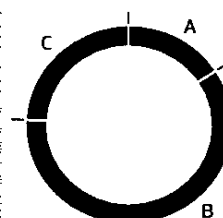
SDL also prides itself on providing high levels of standards on the health and safety of its employees. Some examples of what we do include: provide training on First Aid, conduct numerous fire drills, equip offices with safety blankets, and regularly test electricity to ensure it is compliant and take immediate action should a problem exist. In addition, each time we upgrade an office area, we take special care to further upgrade its safety.

Business continuity

At times of local disruption, SDL's Business Continuity Plans are activated to provide regular communication to employees, and to enable them to adapt their working location and hours of work. The majority of SDL's job roles can be performed remotely. Agile working policies and procedures provide the support needed to work effectively from home, including the provision of IT equipment, managerial support and additional flexibility required in exceptional circumstances.

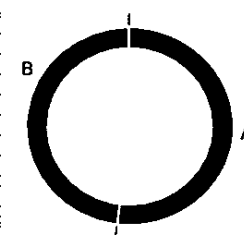
Human rights

Finally, we are unwavering in safeguarding human rights and comply with every aspect of national and international human rights conventions. One of the many ways we demonstrate our commitment to human rights is by including it as a key topic in our Code of Conduct training that all employees are expected to take.



Employees in 39 countries

A Americas	640
B EMEA	2,570
C Asia Pacific	1,090



Total workforce by gender

A Female	52%
B Male	48%

Female representation

25%

Board

30%

Executive team

51%

Senior Leaders

Sustainability review continued

Communities

SDL Foundation

It is important to all our stakeholders that SDL takes its responsibilities to its communities and the environment seriously. Our global presence means we are able to be active in supporting local charities and seeing the difference our contributions can make. During 2019, the SDL Foundation has partnered with eight different charities through our 'Transform It' programme and supported 25 employees through our 'Match It' programme matching individual fundraising for charities of their choice. Our employees are equally committed to making a positive contribution to local communities. With an increase from 175 days in 2018 to 478 days in 2019, an increase of 173%. Our reporting also shows that 391 people took advantage of booking at least one volunteer day in 2019 compared to 185 people in 2018, which is an increase of 111%.

CSR activities have been on-going throughout the year and continue with momentum. Employees have been helping to build a cistern in Stuttgart, running marathons in various cities, chopping vegetables in Japan, giving out food to the homeless and wrapping gifts in Amsterdam. Many different initiatives have taken place over the year and continue to do so.

478

days of employee time volunteered



In March three employees from different locations, China, Romania and the UK visited Uganda with Street Business School.



In September 12 employees, all from different regions, travelled to a remote part of Kenya with Food for the Hungry to embrace the people, the communities and learn how we have contributed.

Environment

As a responsible company working around the world, we recognise the importance of minimising our impact on the global environment and so we make every effort to monitor and reduce our overall carbon footprint year-on-year. We measure and report on all significant emission components across Scopes 1, 2 and 3 which supports our submission to the CDP and fully satisfy our requirements for Reporting under the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013.

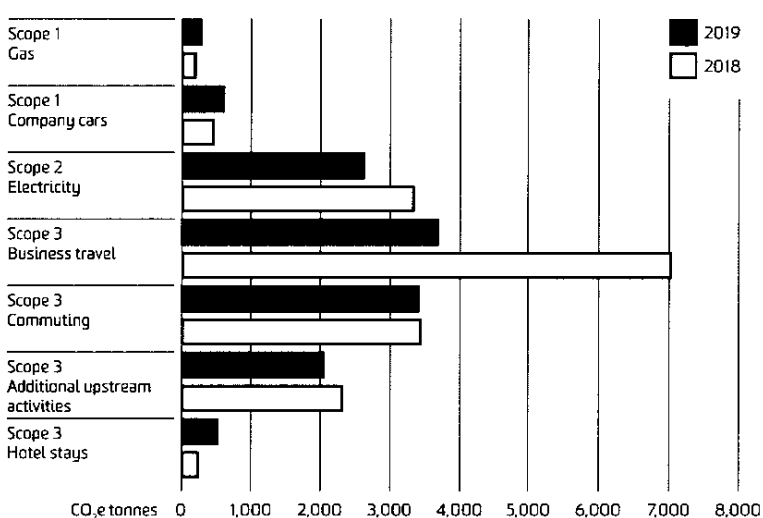
Our hard work and efforts are paying off as our newly calculated overall global carbon footprint across all Scopes (1, 2 and 3) has resulted in a very commendable 21% reduction of CO₂e tonnes from last year. This is made up of a 7% reduction in Scope 1 and 2 and an impressive 21% reduction in Scope 3. See the table and chart(s) opposite for further detail.

Our latest CDP submission (2019) has achieved a very respectable 'B' score which is better than the Global and Europe average of a 'C'. Our step increase from last year reflects the efforts made in monitoring, reporting and reducing our climate change impact. This CDP score demonstrates that we are "taking coordinated action on climate issues" seriously and have "Good Management" practices in place.

The Energy Saving Opportunity Scheme (ESOS) compliance notification was completed on time and was carried out by our external Lead Assessor PASCHALI who identified a number of potential savings totalling in excess of 7.5% of our energy costs. We will consider implementing these opportunities in an effort to further manage our emissions and related costs.

Our calculations follow the principles of ISO 14064-1:2019 and have been undertaken by our newly appointed, energy and environmental consultancy PASCHALI who have also supported us in this year's CDP submission as well as our other environmental reporting.

A comparison between 2019 and 2018 global emissions (CO₂e tonnes) by activity



Absolute emissions source

	2019 CO ₂ e tonnes	2018 CO ₂ e tonnes
All Scopes (1,2 and 3)		
Scope 1 emissions	923	690
Scope 2 emissions	2,819	3,357
Scope 3 emissions	9,718	13,110
Total emissions	13,460	17,157
% change from previous year	(21.5%)	(0.4%)

Mandatory Greenhouse Gas (MGHG) reporting

The following table summarises the information necessary for SDL's compliance with MGHG reporting:

	2019 CO ₂ e tonnes	2018 CO ₂ e tonnes
MGHG emissions (Scope 1+2)	3,742	4,047
Intensity ratio: CO ₂ e tonnes / £m revenue	9.94	12.52
Intensity ratio: CO₂e kg / £m revenue	9,940	12,517
Intensity ratio: CO ₂ e kg / £m yearly % change	(20.6%)	(31.7%)

21%
reduction in
CO₂e emissions

B
2019 CDP Climate
Change score



Risk management

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 we face as a business. During the year, we have performed reviews of those risks that we believe could seriously affect the Group's long-term positioning and performance, reputation or its ability to deliver against its KPIs. These reviews included an assessment of those risks that we believe would threaten the Group's business model, future performance, human capital and innovation.

The process relies on our assessment of the risk likelihood and impact on the development and monitoring of appropriate internal controls. Risks are

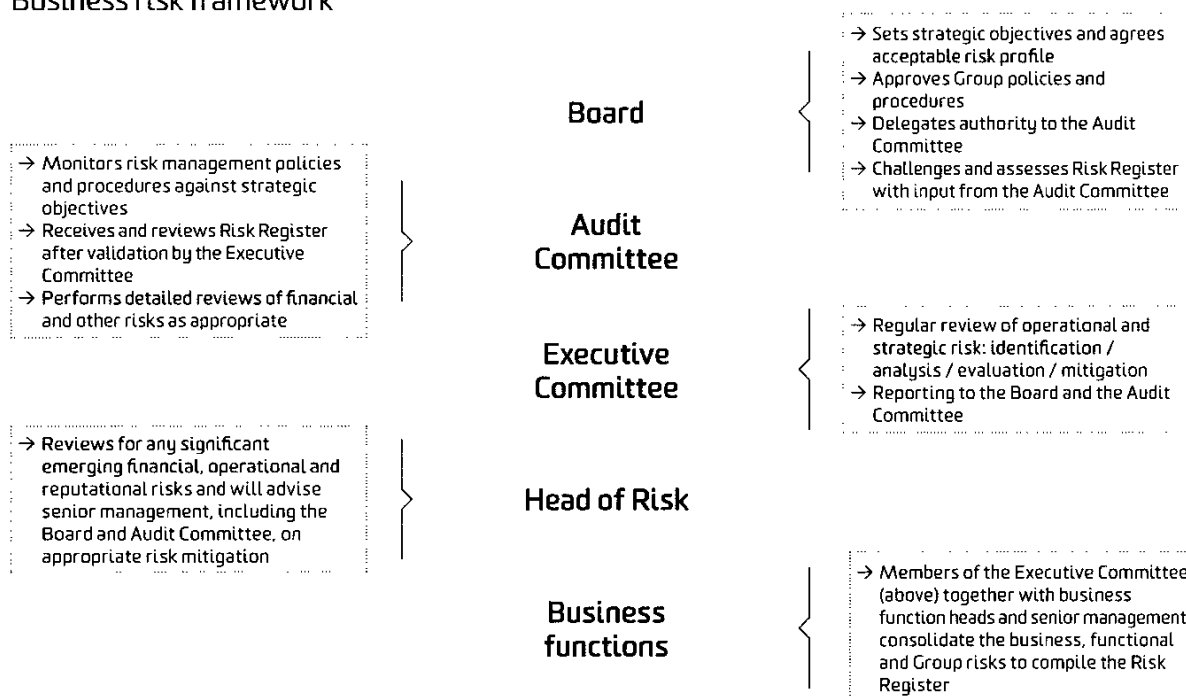
reviewed as a top down and bottom up activity at the Group and the business function level. The content of the Risk Register is considered and discussed through regular meetings with senior management and reviewed by the Executive Committee.

Risk governance

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

The Strategic risks table sets out our principal risks, their link to our strategic objectives, their movement during the year and a summary of key controls as well as any mitigating factors. The Board considers these to be the most significant risks faced by the Group that may impact the achievement of our strategic objectives as set out on pages 9 and 10. 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.

Business risk framework

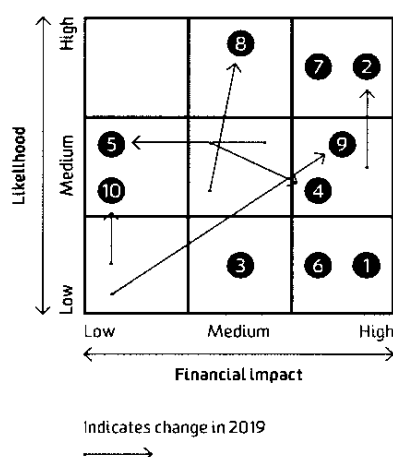


Principal risks overview

	Strategic objectives impacted	Change in the year	Key to strategic objectives
1 Competition strategy – services	① ② ⑤ ⑥	➡ No change	① Build deep relationships with our customers
2 Competition strategy – technology	① ③ ⑤ ⑥	➡ Risk increased	② Be the world's best Language Service Provider
3 Human resources	③ ④ ⑤ ⑥	➡ No change	③ Be the leader in Language and Content Technologies
4 Information security	① ⑥	➡ Risk increased	④ Be the leader in solutions in our target premium segments
5 Transformation and control	⑥	➡ Risk decreased	⑤ Enable our people to be their best
6 Legal and compliance	① ⑥	★ New risk	⑥ Achieve our target operating model
7 Business continuity including COVID-19	② ③ ⑥	★ New risk	
8 Currency movements	⑥	① Risk increased	
9 Political and economic environment	③ ⑥	① Risk increased	
10 Taxation	⑥	① Risk increased	

08 Our strategy
Read more here.

Risk map



On pages 36 to 37 we have summarised our principal risks with mitigating actions for each for the year ended 31 December 2019. This list is not exhaustive and may change as the business and associated risks evolve.

Categories of principal risk

Strategic

① ②

Risk

Stakeholders' expectations unrealised due to: market disruption, geopolitical risks, operating model inefficiencies, competitive products and platforms.

Operational

③ ④ ⑤ ⑥ ⑦

Risk

Ability to build and maintain the optimum operating model is threatened by: sourcing and retaining key talent, cyber and information security threats, integration of acquisitions and controls.

Financial

⑧ ⑨ ⑩

Risk

Tax challenges or changes, and foreign exchange risk.

2019 strengthening and mitigating actions in brief

Over the course of the year we have:



People and skills

Extended the scope and number of courses in the on-line skills training zone, initiated a leadership development course including Women in Leadership, undertaken a talent review and carried out an employee survey.



Business continuity

Commissioned additional High Availability systems across strategically important sites.



Information security

Carried out phishing simulations to test the vulnerability of users and target additional training and support. All our Language Delivery sites worldwide are certified to ISO27001.













Finance







Reviewed and further developed the Financial Minimum Control Framework, entered into a co-sourced arrangement with Deloitte for Internal Audit work.

Risk management continued

Strategic risks

1	Competition strategy – services	Strategic objectives impacted	    
	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 the risk	Continued investment and development of technology into the translation process continues to keep SDL competitively positioned.	
2	Competition strategy – technology	Strategic objectives impacted	    
	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 the risk	Maintain controlled development strategy and innovation based on strategic roadmaps. Product integration continues to deepen customer engagement.	

Operational risks

3	Human resources	Strategic objectives impacted	    
	Risk	There is a risk that market competition affects our ability to attract and retain key talent, leading to a decline in the ability and experience of key roles in key functions.	
	How we manage the risk	Talent planning and people development programmes are well established across the Group. Talent and succession planning is discussed annually by the Board and at Executive team meetings. We listen to feedback from colleagues to assess their needs via open conversations, social media, surveys and performance reviews.	
4	Information security (including cyber)	Strategic objectives impacted	  
	Risk	There is a risk that SDL fails to respond to emerging security requirements from legislation and/or client's, leading to financial loss, disruption, or reputational damage.	
	How we manage the risk	Formal certification schemes are maintained and include internal and external validation of compliance e.g. ISO27001 certification. All our Language Delivery sites worldwide are now certified to ISO27001. A Secure Translation Environment is available, providing enhanced security options to customers. The Compliance Team provides direction around data and Data Protection, and our response to GDPR.	
5	Transformation and control	Strategic objectives impacted	 
	Risk	There is a risk that planned returns from investment in systems are not realised.	
	How we manage the risk	Programme steering/project management meet regularly. Benefits tracking is a core part of these meetings. There is appropriate executive level oversight for all the transformation activities which are supported by experienced resources from within the business and externally as required. Rolling programme of local infrastructure and hardware refreshes implemented across the estate. Continuation of initiatives to enhance the supporting control environment across key business processes (Helix).	
6	Legal and compliance	Strategic objectives impacted	  
	Risk	There is a risk that legal and regulatory requirements are not met, leading to the loss of licence to operate, reputational damage, or financial loss.	
	How we manage the risk	Legal is part of the control framework including delegation of authority and an escalation matrix. Thresholds for escalation to legal are in place.	

Operational risks continued

7 Business continuity including COVID-19

Strategic objectives impacted



Risk

There are risks relating to business continuity resulting from specific events such as natural disasters including earthquakes, floods or fires, or pandemics. These may impact our supply chain, particularly where these account for a significant amount of our trading activity. We are dependent on our IT platforms continuing to work effectively in supporting our business.

How we manage the risk

We address this risk with Business Continuity Plans and Disaster Recovery Plans at our key sites, and by carrying out periodic IT and cyber security vulnerability assessments. There are standard procedures in place to escalate breaches and remediate IT security incidents. We have global insurances in place which provide cover for certain business interruption events. We review coverage annually to determine whether adjustments are needed. All job roles are capable of being performed remotely, including back-office roles, sales and marketing, Language Services delivery and product development. We continue to update our employees with guidance and are continually evaluating and mitigating any long-term impact of the COVID-19 threat. Our HR teams are closely monitoring the status of SDL employees in high risk locations, and communicating regular advice.

IT systems as well as HR policies and procedures are in place to enable large-scale agile working whilst maintaining high levels of service to clients. In the Language Services organisation, Helix enables global 'virtual teaming', and we can move all our workforce to virtual desktop and laptops reducing the risk of local points of failure. The IT and language service supply chain teams are in continuous communication to assess the operational impact and take mitigating steps such as switching services to alternative locations to improve resilience.

Financial risks

8 Currency movements

Strategic objectives impacted



Risk

There is a risk that trading patterns and/or intercompany trading/loan patterns expose the Group to foreign exchange risk, leading to financial exposure.

How we manage the risk

Regular reporting and review of Group currency exposures. Creation of a new treasury function. Controlled programme of intercompany balance settlement in place to minimise balance sheet exposures.

9 Political and economic environment

Strategic objectives impacted



Risk

Across our business we are exposed to the effects of political and economic risks from the impact of Brexit to changes in the regulatory and competitive landscape to the impact of the US-China trade war and US Trade Policy. With regards Brexit, there remains levels of political and regulatory uncertainty which is expected to continue for the foreseeable future until alternative trade deals have been put in place.

How we manage the risk

We will continue to assess and monitor the risks and impacts on our stakeholders. The Group has a Brexit Committee which meets regularly and addresses all affected areas including regulation, supply chain, HR, Finance and Tax. We will take appropriate measures to address the challenges. Due to the already global nature of our business and service capabilities across the globe, we do not currently consider that we will be materially impacted by the UK's departure from the EU.

10 Taxation

Strategic objectives impacted



Risk

There is a risk that assessment by tax authorities results in disallowance of intercompany or other charges.

How we manage the risk

Formal agreements are in place between all Group companies.
All intercompany transactions take place at arm's length.
Business models reviewed by Group Tax Manager.

Key to change in risks



New risk



No change



Risk reduced



Risk increased

Risk management continued

Viability statement

In accordance with the 2016 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a three year period, taking account of the Group's current financial and trading position as summarised in this Annual Report, the principal risks and uncertainties set out on pages 34 to 37 and the three-year strategic plans which are reviewed annually by the Board. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period from the date of this Annual Report to 31 December 2022. The Directors believe that a three year period is an appropriate period over which a reasonable expectation of the Group's longer term viability can be evaluated and is aligned with the Group's business and strategic planning time horizon. It reflects the nature of the Group's key markets, its businesses and products and its limited order visibility. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, they believe that the three year period presents readers of the Annual Report with a reasonable degree of confidence. The Group's strategic and financial planning process reflects the Directors' best estimate of the future prospects of the Group, but they have also considered the resilience of the Group across a number of severe but plausible scenarios, taking into account the principal risks facing the Group as detailed on pages 34 to 37, and the likely effectiveness of any mitigating actions. The Board reviews these risks in detail throughout the year, and the Audit Committee has a structured programme for the review of risks and mitigating actions. The following scenarios were applied to the most recent Strategic Plan which was reviewed by the Board in March 2020: loss of significant amounts of revenue and gross margin; additional working capital requirements; significant adverse movements in foreign exchange rates; Brexit (the UK leaving the EU without an agreed trade deal) and the current

outbreak of the COVID-19. The Directors' assessment considered the potential impacts of these scenarios, both individually and in combination on the Group's business model, future performance, solvency and liquidity over the period.

In respect of COVID-19, the Directors have modelled a number of scenarios to the most recent Strategic Plan, and considered those scenarios which in their view, were considered severe but plausible. The Directors prepared these scenarios based on underlying sector by sector analysis of the potential impact of COVID-19 in the short-term including a three month, six month and nine month lock down scenario, and any impact of COVID-19 on future years growth. The Directors have considered the mitigating actions below and have considered that these would be effective. The Directors have also considered the impact of COVID-19 on the liquidity of the Group, and the Group's banking covenants.

The results of the sensitivity analysis which also included stress testing of the Strategic Plan, demonstrated that as a result of the Group's strong cash generation it was able to maintain sufficient headroom to accommodate the above scenarios, both individually and in combination. This is supported by the fact that the Group sells a wide portfolio of different products across a diverse set of industries and geographies, has a global supply chain network, and has well-established relationships with its customers.

The Directors have prepared cash flow forecast scenarios for a period of at least the next 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 of the Group's revenue reduction modelling is accompanied by a multi-phased cost reduction plan.

In addition, the Directors have also prepared a further downside scenario which assumes a 35% reduction in revenue for six months followed by a phased return in Q4. In such a case, which the Directors believe is highly unlikely, further cost reduction actions, which are all in the control of the Directors, would be instigated.

Mitigation actions considered as part of this stress testing included further cost reductions, tight control of working capital, and reduction in non-essential capital expenditure. The Directors consider that under each of the scenarios, the mitigating actions would be effective and sufficient to ensure the continued viability of the Group. The Directors have also considered the Group's capacity to remain viable after consideration of future cash flows, expected debt service requirements, undrawn facilities and access to capital markets. The Group has in place a five-year £120m revolving credit facility (RCF), expiring on 19 July 2023, of which £70m is committed. The agreement also includes a £50m accordion (uncommitted) facility. This facility is provided by HSBC and Lloyds. In March 2020, the Directors drew down a total of £63m of the Group's bank facility to ensure continued liquidity in the face of any potential banking crisis and potential unforeseen liquidity issues as a result of COVID-19.

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

Adolfo Hernandez
Director
14 April 2020

Governance

Contents

Chairman's introduction	40
Board of Directors	42
Corporate Governance Report	44
Audit Committee Report	49
Nomination Committee Report	54
Directors' Remuneration Report	56
Remuneration Policy Report	59
Annual Report on Remuneration	66
Directors' Report	75
Statement of Directors' responsibilities	79

Compliance with the UK Corporate Governance Code

Provision 19 of the UK Corporate Governance Code 2018 (Code) sets a maximum nine-year length of tenure for the Chairman. SDL plc's Chairman, independent on appointment, has served since 16 December 2009 and will seek reappointment at the 2020 AGM.

David Clayton is considered by the Board to be independent in character and judgement and there are no relationships or circumstances which could affect his judgement. Furthermore, the Board attests to his objectivity, willingness to challenge the status quo and pursuit to safeguard the interests of all shareholders. His knowledge of the business and relationship with the stakeholders and the Board is considered strategic to the Company's success at this time in its transformation.

In addition, the Chairman and the Senior Independent Director have met and discussed David's length of tenure with major shareholders who are supportive of David continuing to serve. This matter will be kept under review during 2020 and discussed with stakeholders as appropriate.

The Company applied and complied with all other main principles and relevant provisions set out in the Code throughout the year ended 31 December 2019. This report, together with the other statutory disclosures and the reports from the Nomination, Audit and Remuneration Committees, provide details of how.

Copies of the Code are available from www.frc.org.uk.

Chairman's introduction

The Directors submit their report and the audited financial statements of the Company, SDL plc, and the Group, which includes its subsidiary undertakings for 2019. SDL plc is the listed holding company for the SDL group of companies. Its shares are listed on the London Stock Exchange.

Dear Shareholder

I am pleased to present the Corporate Governance report for the year ended 31 December 2019. This report provides an overview of how SDL is governed and the control framework that we have in place. The Board is responsible for long-term sustainable success, generating value for shareholders and contributing to wider society.

The Board does this by supporting and challenging executive management to ensure we operate with the highest governance standards. This report explains how we seek to achieve this. It also contains some highlights from my perspective as Chairman.

Corporate governance and the role of the Board

Through this Annual Report, we disclose how we have complied with the Code's principles and provisions. We discuss the Board's oversight of strategy and management activity and how we have applied good governance practices throughout the year. This includes workforce engagement, reviewing and monitoring company culture, how the Group is controlled and managed and how we have carried out our duties.

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

the application and execution of our strategy.

During 2019 the Board has spent time discussing the wider economic, political, market and technological environment, considering the potential impact of the short and long-term changes we see ahead, and addressing through our strategic planning future opportunities and challenges. We have invited advisors to share their insights and experience with the Board, to provide us with a broader understanding of the factors affecting our markets, technologies and communities.

We need to anticipate changes in our market and be agile. It is also important that our decisions as a Board are informed by long-term considerations. Actions taken today will shape the business and performance of SDL. By understanding current trends and providing both support and challenge to management in terms of how they address material issues, we have acted to create ongoing opportunity for the business and to protect the interests of stakeholders in the shorter term.

The Board endorses and supports the high standards of governance required and the oversight provided by the governance bodies. We believe the governance of corporate behaviour is an essential characteristic of how a business is run and how it reports, and we place high expectations on ourselves. Setting the right standards on governance protects the business and the interests of stakeholders.

Board composition

There were no changes to Board composition during 2019. On 27 January 2020 we announced Gordon Stuart's appointment to the Board as a Non-Executive Director and a member of the Audit, Nomination and Remuneration Committees.

Mandy Gradden, who serves as Chair of the Audit Committee, will mark her 9th anniversary as a Non-Executive Director at the beginning of 2021. Gordon will take over as Chair of the Audit Committee at the AGM in May and Mandy will continue to serve on the Committee and as a Non-Executive Director at least until the end of 2020. The Board, in consultation with Mandy, has decided to make this appointment in good time to ensure continuity and an appropriate transition period.

We continue to evaluate and, as appropriate, act on developments and guidance regarding Board composition, including diversity. Following the Board changes that will take effect at the 2020 AGM, 25% of the Board will be women.

The primary focus of the Nomination Committee over recent months has been Audit Chair succession. The Nomination Committee Report can be found on page 54.

Board evaluation

Our 2019 Board evaluation was internally facilitated. More details can be found in the following pages. We will ensure that areas of focus are acted upon to further

improve our performance. The last external evaluation was conducted in 2018 and, in line with the Code, the next is due in 2021.

Culture and engagement

We employ over 4,300 people around the world. In order to continue to attract and retain the brightest and best, we have implemented policies which ensure that our employees can perform at their best and meet the needs of our clients. Delivering market-leading products and services globally to our client base requires us to be flexible and diverse.

Some of the initiatives we have introduced are agile working and leadership training for key talent. We continue to promote inclusion and diversity throughout the Group. More details on these policies and initiatives can be found on page 30.

A key focus of the 2018 UK Corporate Governance Code is stakeholder engagement and we have built on our already strong foundations.

As a Board we have chosen to appoint our Senior Independent Director, Alan McWalter, to engage with the Group's employees. Alan has spent time in 2019 reviewing the existing channels of communication as well as visiting and listening to colleagues and sharing the views of the Board across a variety of matters. Feedback from the 2019 meetings has been shared with the Board. A programme of meetings and topics for discussion over 2020 is being considered to ensure that two-way communication and facilitated dialogue exists between the Board and the workforce, with information feeding into the Board's decision-making process and communications back to the workforce on how the Board has considered and acted on it.

As per our report 'Promoting Equality at SDL: Gender Pay Gap Report', published in 2020, we employ slightly more women

(52%) than men. Two of our eight Executive team, and over half (51%) of the senior executives at the next level are women. Plus we are monitoring our pipeline of talent, with a focus on growing and developing women for more senior roles (see page 30).

We are also a multinational and multicultural Company, employing people from 39 countries and 69 nationalities. Having a diverse workforce helps us to create, translate, manage and deliver culturally relevant content, understood by all.

Community

During 2019, the SDL Foundation has partnered with eight different charities through our 'Transform It' programme and supported 25 employees through our 'Match It' programme matching individual fundraising for charities of their choice. Our employees are equally committed to making a positive contribution to local communities and have collectively spent over 3,800 hours of their work time out of the office helping with volunteering and community projects.

Environment

I am also pleased to report our continued participation in CDP's programmes, disclosing information on our environmental risk and performance. Our latest CDP submission (2019) has achieved a very respectable 'B' score which is better than the Global and Europe average of a 'C'. We have also cut our greenhouse gas emissions by over 20% during the year, see page 33 for more information.

Engaging with shareholders

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

These meetings have also covered remuneration, succession planning, diversity and workforce engagement. The Board places great importance on these discussions, which help inform our decisions, track progress and monitor culture.

The Board also receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback. Feedback is actively sought following interim and preliminary results presentations and presented to the Board.

Conclusion

I would like to thank shareholders for their continued interest in the Group and the questions and challenges they raise when we meet.

David Clayton
Chairman

Board of Directors

An experienced and effective team to deliver long-term value.

Committee membership key

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- Chair of Committee

N

David Clayton
Non-Executive Chairman

Appointed
December 2009 (10 years)

Relevant experience and skills

David Clayton joined SDL as a Non-Executive Director in December 2009 and has served as Senior Independent Director and, for nine months through 2015/2016, interim Executive Chairman. After a career in senior executive roles at a number of international technology companies he joined BZW where, after its merger with CSFB in 1997, he was Managing Director and Head of European Technology Research until 2004. David Clayton joined The Sage Group plc Board in June 2004 as a Non-Executive Director and took up an executive role as Director of Strategy and Corporate Development from October 2007 to February 2012. He is currently Chairman of Forensic and Compliance Systems, a Non-Executive Director of SwiftPage Inc and Chairman of the Board of Trustees of the charity Changing Faces.

External appointments

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

Adolfo Hernandez
Chief Executive Officer

Appointed
April 2016 (4 years)

Relevant experience and skills

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

External appointments
None.

Xenia Walters
Chief Financial Officer

Appointed
April 2018 (2 years)

Relevant experience and skills

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

External appointments

Xenia is on the Board of several SDL Group companies.

A
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R

Glenn Collinson
Independent
Non-Executive Director

Appointed
June 2014 (6 years)

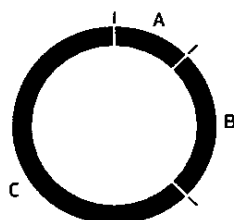
Relevant experience and skills

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

External appointments

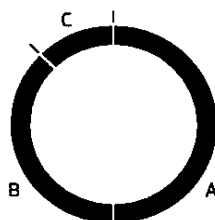
Glenn is a Director of Vsora SAS, Aquis Exchange PLC and pureLiFi Limited.

Board profile at a glance



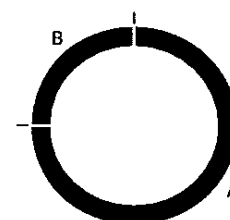
Board composition

A Chairman	1
B Executive Directors	2
C Non-Executive Directors	5



Board by tenure

A 0-4 years	4
B 5-9 years	3
C Over 9 years	1



Board by gender

A Male	6
B Female	2

A
R

Mandy Gradden
Independent
Non-Executive Director

Appointed
January 2012 (8 years)

Relevant experience and skills

Mandy Gradden is an experienced corporate CFO with more than 20 years' financial and senior management experience. She is CFO of the FTSE 250 information company Ascentral plc. Previous roles include: CFO of the private-equity owned Torex, the retail technology firm; CFO at the FTSE 250 business and technology consultancy, Detica; Director of Corporate Development at Telewest Communications; and Group Financial Controller at Dalgety. She began her career at Price Waterhouse, where, in 1992, she qualified as a Chartered Accountant.

External appointments

Mandy is CFO on the Board of Ascentral plc.

A
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R

Christopher Humphrey
Independent
Non-Executive Director

Appointed
June 2016 (4 years)

Relevant experience and skills

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

External appointments

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

A
N
R

Alan McWalter
Senior Independent
Non-Executive Director

Appointed
March 2014 (6 years)

Relevant experience and skills

Alan McWalter is the Chairman of Churchill China plc and Newmarket Promotions. He has previously held Chairmanship and Non-Executive roles with numerous quoted and private companies. He was an Executive Director of Marks & Spencer and Kingfisher Group companies and in his earlier career held both marketing and general management appointments with Thomson Consumer Electronics and Spillers Foods having started his career with Unilever.

External appointments

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

A
N
R

Gordon Stuart
Independent
Non-Executive Director

Appointed
January 2020 (2 months)

Relevant experience and skills

Gordon Stuart currently serves as the CFO of Unit4, a global provider of people-centric enterprise cloud applications for ERP and HCM to mid-market service sector organisations. Previous roles include CFO of TMF Group and CFO at Alexander Mann Solutions. He has held senior positions with a number of UK listed businesses including Group Finance Director of Xansa plc and Group Finance Director of London Bridge Software Holdings plc. His early career was as a management consultant with McKinsey & Company. He has also held non-executive roles at Sepura plc and Intec Telecom Systems plc.

External appointments

Gordon currently serves as the CFO of Unit4.

Corporate Governance Report

Board leadership and Company purpose

The Board is responsible for promoting the long-term, sustainable success of the Group, generating value for shareholders and contributing to wider society. It establishes the Group's overall purpose, values and strategy and is accountable to shareholders for ensuring that the Group is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours.

The Chairman of the Board promotes high standards of corporate governance and ensures Directors understand the views of the Company's shareholders and other key stakeholders so they can consider them and s172 Companies Act 2006 requirements, in Board discussions and decision-making.

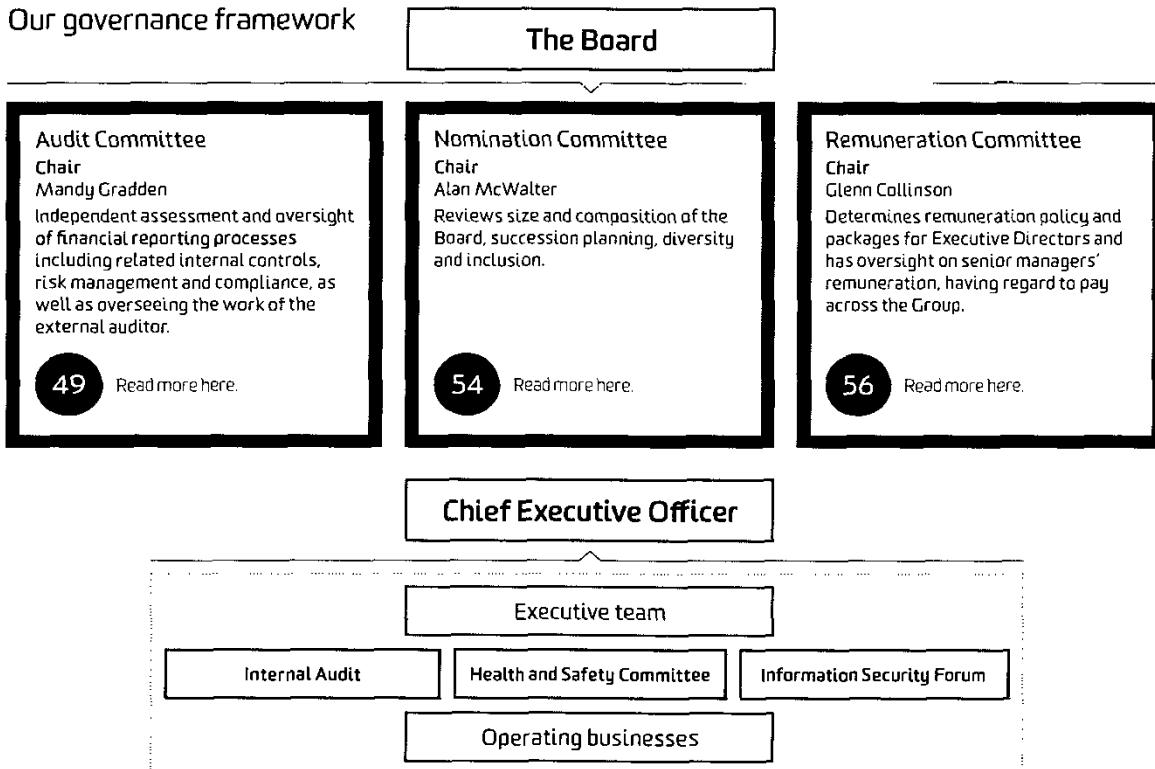
The Board sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Group is adequately resourced.

Corporate governance framework








The Board has delegated the daily operational management of the business to the CEO and CFO, and holds them to account for their responsibilities. The CEO is supported in this task by his Executive team.

The Board also operates through a number of Committees: Audit, Nomination and Remuneration.

Our governance framework



Board activity in 2019

Area of focus	Matters considered	Link to strategic objectives
Strategy	<ul style="list-style-type: none"> → Strategy meeting to develop future strategy → Technology and service strategies reviewed → 2018/2019 budget and three-year plan → Market update 	
Planning / running the business	<ul style="list-style-type: none"> → CEO reports → Health and safety updates → 2018/2019 budget; reports against budget and forecast → Dividends → Share plans: satisfaction of awards → Operational performance KPI review 	
Investment	<ul style="list-style-type: none"> → 2018/2019 budget → Regular M&A updates 	
Capability (management and employees)	<ul style="list-style-type: none"> → Talent management and succession → Employee survey 	
Measurement of performance	<ul style="list-style-type: none"> → Monthly and periodic financial reports including FY 2018; HY 2019 → Dividend approvals 	
Risk and reputational management	<ul style="list-style-type: none"> → Cost reduction programme → Going concern and viability statement → Reviews of effectiveness of internal control and risk management systems → Received internal and external audit updates from the Audit Committee 	
General governance including social and environment matters	<ul style="list-style-type: none"> → Board and Committee evaluation → Reports from Committees → AGM → Board and Committee appointments → Gender pay gap review → Matters reserved for the Board → Updates in governance and Company law → Reviewed Modern Slavery Statement 	

Key to strategic objectives

-  Build deep relationships with our customers
-  Be the world's best Language Service Provider
-  Be the leader in Language and Content Technologies
-  Be the leader in solutions in our target premium segments
-  Enable our people to be their best
-  Achieve our target operating model

08

Our strategy
Read more here.

The Board

During 2019 the Board consisted of the Chairman, two Executive Directors and four independent Non-Executive Directors. In January 2020 Gordon Stuart was appointed as a Non-Executive Director, increasing the level of independence on the Board and strengthening the Non-Executive representation on the Board, promoting balance and challenge.

All the Directors bring a broad and valuable range of skills and experience to the Group and further details of these together with other biographical details are set out on pages 42 to 43.

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

Matters reserved for the Board

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

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

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

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

Board meetings

The Board has an agenda programme that ensures operational and financial performance, risk, governance, strategy, culture and stakeholders are discussed at the appropriate time.

Corporate Governance Report continued

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

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

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

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

Division of responsibilities

The responsibilities of the Chairman, CEO, SID and other Directors are clearly defined and no individual has unrestricted powers of decision. The Chairman is responsible

for the leadership of the Board, while the responsibility for the day-to-day management of SDL has been delegated to the CEO.

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

Board Committees

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

- The Audit Committee consists of Mandy Gradden (who chairs the Committee), Glenn Collinson, Alan McWalter, Christopher Humphrey and Gordon Stuart all of whom are independent Non-Executive Directors. The Committee meets at least three times a year. The Board has considered the requirements of the Code with respect to the composition of audit committees and is satisfied that all members of the Audit Committee have recent and relevant financial experience and that the Committee as a whole has competence relevant to the sector in which the Group operates.

- The Nomination Committee consists of Alan McWalter (who chairs the Committee), David Clayton, Glenn Collinson, Christopher Humphrey and Gordon Stuart ensuring that a majority of the Committee's members are independent Non-Executive Directors.
- The Remuneration Committee consists of Glenn Collinson (who chairs the Committee), Mandy Gradden, Christopher Humphrey, Gordon Stuart and Alan McWalter, all of whom are independent Non-Executive Directors.

All Board Committees operate within defined terms of reference and sufficient resources are made available to them to undertake their duties. The terms of reference of the Board Committees are available on the website (www.sdl.com) and by request from the Company Secretary.

Directors' attendance at meetings

The attendance of individual Directors at the regular meetings of the Board and its Committees in the year is set out below, with the number of meetings each was eligible to attend shown. Directors who are unable to attend meetings will receive the papers and any comments will be reported to the relevant meeting. Directors have attended a number of ad hoc meetings during the year in addition to the regular Board meetings and have contributed to discussions outside of the regular meeting calendar.

Attendance table

Director	Board	Audit Committee ³	Nomination Committee	Remuneration Committee
David Clayton, Chairman	8/8	5 ²	2/2	5 ²
Alan McWalter, SID	8/8	5/5	2/2	5/5
Glenn Collinson, NED	8/8	5/5	2/2	5/5
Mandy Gradden, NED	8/8	5/5	2 ²	5/5
Adolfo Hernandez, CEO	8/8	4 ²	–	2 ²
Christopher Humphrey, NED	8/8	5/5	2/2	5/5
Gordon Stuart ¹	–	–	–	–
Xenia Walters, CFO	8/8	5 ²	–	2 ²

1 Gordon Stuart was appointed to the Board on 27 January 2020 and has attended all meetings thereafter.

2 Attended by invitation.

3 Technical Audit Committee meetings were scheduled in the year (before the half and full year results were published) to allow a sufficient interval to allow any work arising from the technical meeting to be carried out and reported to the main Board.

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

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

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

Independence

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

Effectiveness

All of the Non-Executive Directors are independent of management and all are appointed for fixed terms. They are kept fully informed of all relevant operational and strategic issues and bring a strongly independent and experienced judgement to bear on these issues.

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

All of the Directors holding office at 31 December 2019, had been reappointed at the AGM on 7 May 2019 and all of them have submitted themselves for re-election, as appropriate, at the forthcoming AGM.

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

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

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

the skills and experience necessary to direct the Company's and the Group's business activities.

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

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

The Human Resources department has a wider succession development plan for senior management roles across the Group, prioritising those positions likely to require development and/or recruitment within the next three years. This data has been considered against internally identified individuals with high potential and the capability to fulfil those roles as they become vacant, to ensure that succession requirements can be met. Internal individuals will be developed for future senior roles and this will be complemented with external recruitment at a senior level where necessary, to balance the required skills and experience of the senior management team and ensure continuing success in the future. This succession plan will be kept under review.

The Board is satisfied that the Chairman and each of the Non-Executive Directors are able to devote sufficient time to the Company's business. Non-Executive Directors are advised on appointment of the time required to fulfil their role.

The Board is satisfied that the number of appointments held by each Director in addition to their position with SDL is appropriate to allow them to fulfil their obligations to the Group.

Code of Conduct

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

Induction and development

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

The Chairman will oversee Gordon Stuart's comprehensive induction programme over the coming months, ensuring it is tailored to his particular needs. All new Directors would receive induction materials, which include: the current strategic and operational plan; recent Board and Committee minutes and meeting packs; organisation structure charts; a history of the Group; and relevant policies, procedures and governance material.

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

Information and support

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

All Directors are supplied with information in an appropriate format. They each have access to the advice and services of the Company Secretary and are able to arrange

Corporate Governance Report continued

for independent professional advice at the Company's expense where they judge it is necessary in order to discharge their responsibilities as Directors. In addition, a Directors' and Officers' Liability Insurance policy is maintained for all of our Directors and each Director has the benefit of a Deed of Indemnity.

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

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

Evaluation

The Board evaluation for the year under review was internally facilitated by the Chairman supported by the Company Secretary.

Online questionnaires were issued to the Board and Committee members which covered a variety of areas including composition of the Board and Committees, succession, strategic oversight and performance, risk management, the advice and support provided, the focus of meetings and priorities for change. The results of the questionnaires were collated and a summary provided to the Chairman.

Overall the results of the evaluation were positive and showed that the Board is running effectively. The Board continues to be seen as being effective and having an appropriate balance of experience, skills and knowledge to implement the Group's strategy over the next three years. Succession matters will be kept under review.

Election of Directors

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

Investor relations

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

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

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

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

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

The Chairman, the Chair of the Remuneration Committee and the SID hold meetings, generally in February / March, with leading shareholders to discuss remuneration policies and other

corporate governance matters and the comments received are reported to the Board and considered by the Remuneration Committee in determining or varying the Group's approach to Executive compensation.

Auditors

The Directors have taken all reasonable steps to make themselves and the Company's auditor, KPMG, aware of any information needed in preparing the audit of the Annual Report and Financial Statements for the year, and, as far as each of the Directors is aware, there is no relevant audit information of which the auditors are unaware.

As a Public Interest Entity, SDL is required to conduct a tender for audit services at least every 10 years and rotate auditors after at least 20 years. In recognition of the fact that KPMG have been the SDL Group's auditor for 10 years, the Board undertook a competitive external audit tendering process in 2019 and Ernst & Young LLP was selected as the Group's auditor with effect from 1 January 2020, replacing KPMG LLP.

Annual General Meeting

The 2019 AGM was held on Tuesday 7 May 2019. All Directors attended and were available to answer questions. Voting on all resolutions was by poll, allowing shareholders to vote by proxy if they could not attend. The results of voting were published on our website at www.sdl.com.

The 2020 AGM will be held on Tuesday 26 May at 2:30pm. Full details are included in the Notice of Meeting.

Audit Committee Report

Mandy Gradden

Audit Committee Chair

Members

Glenn Collinson

Christopher Humphrey

Alan McWalter

Gordon Stuart

Dear Shareholder

The Audit Committee continues to support the business in achieving its business and strategic objectives, see pages 8 to 11 of this Annual Report. During 2019, the Committee has supported the Board on a number of significant governance matters relating to financial reporting, internal control and risk management, including the Group's transition to IFRS 16 Leases, the accounting for capitalisation of development costs, the tender and appointment of a new external and co-sourced internal auditor and the continuing transformation programme.

The Committee monitored the Group's risk exposures in relation to changes in the external regulatory and political environment, including the impact of COVID-19 and Brexit on the Group's risk management activities. The internal audit capabilities have been increased through the use of an external provider, bringing new external perspectives alongside additional capacity. Further information on risk can be found on pages 34 to 38.

I'd also like to take this opportunity to welcome Gordon Stuart, our new Non-Executive Director, onto the Committee. Gordon was appointed to the Board on 27 January 2020 and will take over as Audit Chair in May 2020. I will remain on the Committee to facilitate a smooth handover of existing matters to the new Chair.

Membership and attendance

Committee members are independent Non-Executive Directors of the Company, with diverse skills and experiences. The Committee as a whole has competence relevant to the sector and Christopher Humphrey and I have recent and relevant financial experience, as required by the provisions of the Code. Gordon Stuart, who was appointed in January 2020, also brings recent and relevant financial experience to the Committee.

All Committee members have significant current and past executive experience in various industries. This range and depth of financial and commercial experience enables them to deal effectively with the matters they are required to address and to challenge management when necessary.

The Company Secretary is secretary to the Committee.

The Board evaluates the membership of the Committee on an annual basis. As noted above, Gordon Stuart will take over as Audit Chair on 26 May 2020 following the AGM.

Since the end of the year, the Committee has met twice (11 and 23 March 2020) and all members attended.

Only the members of the Committee have the right to attend Committee meetings, however the CFO, Chairman, CEO, senior representatives of the external auditor, other external advisors

and other senior management attend meetings by invitation. If the presence of any attendee is inappropriate or might compromise discussion, then the Committee would either not invite the attendee concerned or request that they not attend that part of the meeting.

Separate sessions with internal and external auditors are held in the absence of management.

Governance and compliance

The Audit Committee Chair, together with the other members of the Audit Committee regularly meet with the key people involved in the Company's governance, including the Chairman, the CEO, the CFO, the external auditor's lead partner, the head of internal audit and other senior management.

Terms of reference

The Committee undertakes its duties in accordance with its terms of reference which are regularly reviewed to ensure that they remain fit for purpose and in line with best practice guidelines. The terms of reference are available on the Company's website www.sdl.com.

Committee evaluation

As part of the formal annual Board evaluation, the Committee's effectiveness was subject to review in January 2020. The review confirmed that the Committee is working effectively.

Audit Committee Report continued

Key purpose of the Audit Committee: responsibilities and activities

The Committee's responsibility is to ensure that financial information published by the Group properly presents its activities to stakeholders in a way that is fair, balanced and understandable, as well as overseeing the effective delivery of both external and internal audit services.

The Committee also supports the Board in meeting its responsibilities in respect of overseeing the Group's internal control systems, business risk management and related compliance issues.

The Committee operates on the basis of open and challenging dialogue with management and with the internal and external auditors.

Fair, balanced and understandable

The Committee assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Committee ensures that all contributors and senior management are fully aware of the requirements and their responsibilities. This included the use and disclosure of alternative performance measures and the financial reporting responsibilities of the Directors under s172 of the Companies Act 2006 to promote the success of the Company for the benefit of its members as well as considering the interests of other stakeholders which will have an impact on the Company's long-term success of the entity.

During 2019, the Committee met six times (including the audit tender presentation meeting) and full details of matters discussed are covered later in this report. This includes an annual calendar of standing items such as:

- The review of the annual and half-yearly financial statements to ensure these properly present the Group's activities in accordance with accounting standards, law, regulations and market practice;
- Annual review of internal controls; and
- Compliance activities in the Group, including data privacy, and the Group's whistleblowing arrangements.

In addition to the above, particular areas on which the Committee focused included:

- The external audit tender process and the subsequent auditor transition plan.

Committee activity in 2019

	11 March 2019	18 March 2019	24 June 2019	31 July 2019	12 November 2019	26 November 2019	11 March 2020	23 March 2020
Statutory and financial reporting								
Full year results	■	■					■	■
Interim results				■				
Review of IFRS 16					■	■		
Tax reporting			■			■		
Internal audit								
Internal audit plan			■			■		
Internal audit reports		■				■		■
Whistleblowing				■		■		
Annual review of internal controls		■		■				
External audit								
External audit plan			■					
External audit reports	■	■		■			■	■
External audit effectiveness and independence			■					
Risk and control								
Risk register		■	■			■		
Risk related presentations			■					
Other matters								
Audit tender process review			■					
Audit tender presentations and external auditor selection and transition					■	■		
Treasury function review			■					

- Principal risks and uncertainties and the effectiveness of the risk management process.
- Internal audit independence and effectiveness plus findings and outcomes.
- Accounting judgements and estimates and developments in financial reporting (IFRS 15 and IFRS 16).

Financial Reporting Council

In November, the Company responded to a request from the Financial Reporting Council (FRC) to review the 2018 IFRS 15 disclosures following the first full year of adoption of IFRS 15 Revenue from Contracts with Customers.

The FRC noted a limited number of matters where they believed that users of the accounts would benefit from improvements to existing disclosures and these have been considered and implemented during the drafting of the FY19 Annual Report.

Significant judgements

Identification of the issues deemed to be significant takes place following open, frank and challenging discussion between the Audit Committee members, with input from the CFO, the external auditor, the Group Financial Controller and other relevant personnel.

The Audit Committee considered the following significant matters during the course of the financial year. In all cases, papers were presented to the Audit Committee by management, setting out relevant facts, material accounting estimates and the judgements associated with them. The Committee satisfied itself that the disclosures in relation to accounting judgements and key sources of estimation were appropriate and obtained, from the external auditor, an independent view of the issues and risks. The Committee is satisfied that the judgements made are reasonable and appropriate disclosures have been included in the accounts.

Carrying value of goodwill

The Group considers the carrying value of goodwill on at least an annual basis or when there is an indicator of impairment. Management prepared a

paper which concluded that no indicators exist and that sufficient headroom exists within the Group's value in use models. The Audit Committee reviewed this paper which included challenging the key assumptions: revenue growth rates, forecasting accuracy, cash flow projections and discount rates. The Group has not recognised any goodwill impairment in the current or prior year. See note 13 to the financial statements for further information.

Technology revenue recognition

The Audit Committee has continued to receive and review reports on its administration and the standard processes in place around revenue recognition. In particular this includes, the treatment of material licence contracts signed during the year and recognition of revenue as performance obligations are achieved. The Committee also received reports from the external auditor on its findings where accounting for sales arrangements is complex.

The Committee have reviewed Management's paper alongside the response to the FRC regarding the Group's revenue recognition disclosures. In particular, the Committee reviewed the Group's policies for recognising revenue on multiple element arrangements and the determination of standalone selling prices.

The Committee discussed and challenged management's papers, noting the enhancements to the disclosure in these accounts and satisfying itself that a consistent approach had been applied to determine revenue recognised in 2019.

The Audit Committee have reviewed the enhanced disclosures provided in relation to revenue recognition policy and the amendments made to the significant estimates and judgements policy on page 99.

Capitalisation of development costs

The Group capitalises eligible employment costs which are incurred on the development of its software products. In order to determine the amount of cost that should be capitalised, including the proportion of cost associated with software developers on both new products and substantial improvements to existing

products, the Group assesses whether the cost meets the capitalisation criteria set out in the accounting standards.

Product development costs are capitalised once a project has reached a certain stage of development and these costs are subsequently amortised over a three-year period. Due to the size of the capitalised balance and the judgements required in calculating the capitalisable cost, this has been included as a significant judgement for 2019.

The Committee has considered the underlying policies and procedures in place across the group and has challenged management about the controls in place required to assess whether the new product development has reached the appropriate point for capitalisation of costs to begin and whether any impairment of capitalised costs is required. More details are set out in note 13 to the accounts.

Transfer pricing

The Audit Committee receive regular updates from management on tax related matters which include transfer pricing and the associated tax-risk provisions that have been recognised. The Audit Committee have received papers from the Group's external tax advisors with regards to the judgements made in calculating the Group's tax provisions. The Audit Committee have challenged management on the benchmarks provided by an external third party, the status of tax audits relating to transfer pricing and the extent of any provision arising from these. The Audit Committee have reviewed the disclosures made within note 9 to the financial statements and the disclosure of significant estimates and judgements relating to tax.

Going concern

The Committee has reviewed management's considered impact of COVID-19 in assessing whether the Group has adequate resources to continue in operational existence for the foreseeable future. This includes the Directors' review of the current liquidity of the Group, the impact of COVID-19 on the budgets and forecasts which have been prepared across a number of scenarios and the impact on the Group's banking covenants.

Audit Committee Report continued

The stress testing scenarios the Group has run are disclosed in the viability statement on page 38.

The Group had cash in excess of £98m at the date of signing, and has drawn down £63m on its RCF subsequent to the year end. The agreement also includes a £50m uncommitted accordion facility. The Group's borrowings as at 31 December 2019 was £nil (2018: £5.4m).

The Committee has also reviewed the mitigating actions which would be taken in the event of a material deterioration in the Group's trading and consider that it could take appropriate steps to ensure that the Group has adequate resources to continue in operational existence.

After reviewing performance in 2019, the Group's budget, forecasts and three year plans (to 2022), the Committee endorses the Directors reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. Given this expectation they have continued to adopt the going concern basis in preparing the financial statements.

Internal control and risk management

The risk management process enables the identification, assessment and prioritisation of risk through discussions with executive management. Risks are reviewed by the Executive team and other delegated senior leadership committees to ensure that they continue to remain relevant. A risk that can seriously affect the performance or reputation of the Group is termed a principal risk and is aligned to the Group's strategic objectives.

Whilst the Audit Committee has delegated authority for internal control and risk, the Board is ultimately responsible. The Board has established the level of risk that is appropriate for the business and acceptable in the pursuit of the strategic objectives and has therefore set appropriate policies. It has also set delegated authority levels to provide the framework for assessing risks and ensuring that they are escalated to the appropriate levels of management, including up to the Board where appropriate, for consideration and approval.

This process ensures that risks are not just the product of a bottom-up approach but are also examined from a top-down perspective via an integrated senior management process, which is closely aligned with the Group's strategy, in order to enhance the Group's approach to risk generally.

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

- Review and approval of a treasury management system and policy.
- Maintained oversight on the progress of the transfer pricing review and associated discussions with tax authorities.
- Internal audit matters including: audit the development of the Financial Minimum Control Framework; apportionment of work via the co-sourced arrangement with Deloitte; IT general controls; development capitalisation and associated processes.
- Reviewed the output from the Group's risk review process to identify, evaluate and mitigate risks and considered whether changes in risk profile were complete and adequately addressed.

- Monitored the effectiveness of the Group's internal controls and fraud risk.
- Reviewed and agreed the content of the viability statement (page 38) and the process undertaken, including an assessment of the stress testing performed, in order to approve both it and the going concern statement (page 75).
- Received updates on the compliance tool implementation to enhance due diligence monitoring e.g. global whistleblowing and health and safety.

Internal audit

In May 2019 Deloitte LLP was selected as the service provider to operate a co-sourced internal audit arrangement. This augments the internal skills and experience available and ensures that the Group can access appropriate technical and specialised resource on a global and flexible basis.

The effectiveness of the internal audit, headed up by the Group Financial Controller in their role as Head of Internal Audit, is reviewed by the Committee on an annual basis. The Committee considers and evaluates the level of resource, skills and experience to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

The internal audit plan, see outline in the table below, addressed the Group's strategic risks and key control process reviews. This plan is reviewed with senior management and delivered to the Committee for its approval.

The Committee considers and approves the internal audit plan which is based on an assessment of the strategic risks faced by the Group. The internal audit team (including its co-sourced partner)

Internal audit 2019 plan

Strategic risk

Finance	In-country general finance controls
Operations	Freelancer procurement to pay process
IT	IT general control environment

undertakes an initial review of the strategic risks and drafts a plan which addresses those risks while taking into account the need to review key control processes on a cyclical basis. The draft plan is then discussed with senior management in each business or territory before being presented to the Committee.

Progress in respect of the plan is monitored throughout the year and care is taken to ensure that the internal audit function has sufficient resource to complete the plan. The audit plan may be reviewed during the year as a result of the ongoing assessment of the key risks or in response to the needs of the Group.

The Committee also evaluated:

- the proposed internal audit plan for 2020-2021;
- the scope of work to be undertaken by the internal audit function and monitored progress at subsequent updates;
- progress on recommendations brought forward and considered recommendations arising during the year;
- the resources available to the internal audit function; and
- the effectiveness of the internal audit process through discussion with the Group Financial Controller, the CEO, the external auditor and members of the Audit Committee.

External auditor and independence

The Committee is responsible for assessing the effectiveness of the external audit process, for monitoring the independence and objectivity of the external auditor and for making recommendations to the Board in relation to the appointment of the external auditor. The Committee is also responsible for developing and implementing the Group's policy on the provision of non-audit services by the external auditor.

KPMG were appointed as SDL's external auditor in 2010 although the lead audit partner rotates every five years. The current lead audit partner is William Smith and he has been in the role since March 2019, taking over from Simon Haydn-Jones who rotated off following the FY18 audit.

The Committee has considered KPMG's effectiveness, independence, objectivity and scepticism on an ongoing basis during the year, through its own observations and interactions with the external auditor. The Committee meet the external auditor both formally and informally throughout the year to discuss, amongst other things, materiality, audit strategy and audit findings. In accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Standard 1 and as a matter of best practice, the external auditor has confirmed its independence as auditor of the Company.

Audit tender

As a Public Interest Entity, SDL is required to conduct a tender for audit services at least every 10 years and rotate auditors after at least 20 years. In recognition of the fact that KPMG will have been the Group's auditor for 10 years following the FY19 audit, the Board undertook a competitive external audit tendering process for the external audit for the year ending 31 December 2020.

The Selection Committee was led by the Chair of the Audit Committee, Mandy Gradden, and comprised the other members of the Audit Committee, the CFO and the Group Financial Controller. The Selection Committee reviewed the FRC 'Audit Tenders Note on Best Practice' issued in February 2017 and approached a number of audit firms from within and outside of the 'Big 4' to take part in the audit tender process. Members of senior management met with representatives from the 'Big 4', prior to the release of the request for proposal. The Group's current auditors, KPMG, qualified themselves out for commercial reasons.

The Selection Committee reviewed and approved Request For Proposal documentation and a data pack to be issued to two participants, which provided detailed information to support the submission of quality and accurate bids by participants. Both participants then had the opportunity to spend time with various management stakeholders to obtain a more detailed understanding of the Group and existing management processes and challenges to better inform their tender submission. These meetings included time with the CFO, Group Finance,

Tax, Treasury, Internal Audit, Legal, Company Secretarial and IT. The bids submitted were subject to review by the Selection Committee. Both firms then met with the Selection Committee to present their proposals with a question and answer session led by the members of the Audit Committee present. The Selection Committee reviewed the tender submissions and scored them independently based upon the quality and relevant sector experience of the proposed team, depth of the team and the wider organisation relevant to the Company, cultural fit, proposed approach to the transition plan and wider audit and potential for audit efficiency and effectiveness. The Selection Committee recommended EY as the preferred external auditor for the Company.

The Board ratified the decision of the Selection Committee and EY will be put forward for formal appointment at the AGM on 26 May 2020.

The Audit Committee confirms that the Group is in compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Non-audit services

In order to safeguard the independence and objectivity of the external auditor, the Committee reviews the nature and extent of the non-audit services supplied, receiving reports on the balance of audit to non-audit fees. For 2019, the external auditor has provided £35,000 of non-audit work for other assurance related services (2018: £30,000). Fees paid to KPMG are set out in note 5 to the financial statements.

Mandy Gradden
Audit Committee Chair
14 April 2020

Nomination Committee Report

Alan McWalter

Nomination Committee Chair

Members

David Clayton

Glenn Collinson

Christopher Humphrey

Gordon Stuart

Dear Shareholder**Activities in 2019 / 2020**

The Committee held two scheduled meetings during the year, attended by all members, primarily focusing on succession planning, talent management, corporate governance, inclusion and diversity.

The Committee keeps under review the size and composition of the Board and the need to refresh membership so that there is an appropriate balance of skills, knowledge, experience and diversity in its widest sense. The Committee recognises the need to attract Board members with a diverse range of backgrounds who can contribute a wealth of knowledge, understanding and experience of the markets in which we operate.

The Committee oversaw the appointment of a new Non-Executive Director. In 2019 external search consultants were engaged to identify potential candidates. Where the Committee appoints external advisers to facilitate the search, it ensures that the firm selected has signed up to the relevant industry codes (for example, on diversity) and has no connection with the Company. SDL embraces the importance of diversity and inclusion in all Board recruitment and supports the recommendations of the Hampton-Alexander and Parker Reviews in relation to gender and ethnic diversity. To that end we asked that diversity be

considered at all stages of any long- and shortlist process. Following a review of the external search consultant's long list, a shortlist of individuals were invited to meet members of the Committee, the CEO and the CFO. After careful deliberation, the Committee recommended to the Board the appointment of Gordon Stuart as a Non-Executive Director. Gordon joined the Board on 27 January 2020 and will take over as Chair of the Audit Committee following the AGM in May 2020.

Gordon has valuable and relevant experience; he currently serves as the CFO of Unit4, a developer of ERP systems and business software. Previous roles include Group CFO for the TMF Group, CFO and head of offshore operations at Alexander Mann Solutions. He has held senior positions with a number of successful UK listed businesses, Group Finance Director of London Bridge Software Holdings plc and Xansa plc. He has also held non-executive roles at Sepura plc and Intec Telecom Systems plc.

The Committee also reviewed and discussed:

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

Succession, diversity and inclusion

Succession planning continues to be a priority for the Committee. Throughout the year the Committee discussed with shareholders various related topics including length of tenure and impact, if any, on performance of the Directors.

This is essential to ensuring a continuous level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with unforeseen events, such as the departure of a key individual, and in promoting diversity and inclusion.

Our aim is for the Board to consist of individuals with diverse skills and experience that can add value to our Board work and debates. We also recognise that diversity of gender, age, ethnicity, industry knowledge and education are important. Female representation on the Board is currently at 25%.

Whilst the Board continues to believe that it is not appropriate to set out any specific targets that may require positive discrimination for the appointment of women to the Board, as stated above, it supports the aspiration on gender diversity in the Hampton Alexander review and the Committee considers

gender diversity when making appointment recommendations. As can be evidenced by the work we undertook with external consultants, we ensure that diversity is considered as part of any shortlist process drawn up by external search consultants.

In terms of senior management, 30% of our Executive team are female. We actively support women advancing into senior roles, and 51% of women are in management roles throughout the organisation. However, the Committee remains of the opinion that appointments to the Board and at senior management level should be objective and made on merit relative to a number of criteria, while taking account of social and ethnic backgrounds, as well as gender.

Committee evaluation

We carried out an internal evaluation led by the Chairman of the Board. This entailed questionnaires completed by members and attendees, the output of which was discussed and debated by the Board and its Committees.

Nomination Committee responsibilities

The responsibilities of the Nomination Committee include:

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

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

Alan McWalter
Nomination Committee Chair
14 April 2020

Directors' Remuneration Report

Glenn Collinson

Remuneration Committee Chair

Members

Mandy Gradden

Christopher Humphrey

Alan McWalter

Gordon Stuart

Annual Statement

Dear Shareholder,

I am pleased to present, on behalf of the Board, the Directors' Remuneration Report for the year ended 31 December 2019. This report is comprised of three parts, namely:

- This Annual Statement, which summarises SDL's performance and the resulting remuneration for the Executive and Non-Executive Directors for the year just ended, our approach to remuneration going forwards, our approach to last year's AGM voting and our communications with shareholders over the last year and our 2019 Gender Pay results;
- The Remuneration Policy Report, which provides a summary of the Remuneration Policy for which shareholder approval was obtained at the 2019 AGM. No changes to the Policy are being proposed at the 2020 AGM; and
- The Annual Report on Remuneration, which sets out payments and awards made to the Directors and details the link between Company performance and remuneration for 2019 and how the Policy will be operated for 2020.

Accordingly, at our 2020 AGM there will be one remuneration-related resolution presented, being the normal annual advisory vote on our Directors' Remuneration Report.

Work of the Committee during 2019

The Committee met five times during 2019 and details of attendance at Committee meetings are set out on page 46. The Committee's main activities during the year (full details of which are set out in the relevant sections of this report) included:

- Agreeing performance against the targets for the 2018 annual bonus awards;
- Setting the targets for the 2019 annual bonus;
- Agreeing the performance against the targets for the 2017 LTIP awards and determining vesting levels;
- Agreeing the award levels and performance targets for the 2019 LTIP awards;
- Considering investor feedback in respect of the 2019 AGM;
- Reviewing and agreeing the changes to the Remuneration Policy in advance of the 2019 AGM;
- Consulting on the policy changes with major investors and representative bodies; and
- Reviewing the Chairman's fee and Executive Directors' base salary increases from 1 April 2020.

In addition, the Committee has ensured that the current Policy and practices are consistent with the six factors set out in Provision 40 of the 2018 UK Corporate Governance Code:

- Clarity – The current Policy is well understood by our Senior Executive

team and has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation when changes are being made).

- Simplicity – The Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the Committee is to ensure that our Executive remuneration policies and practices are straightforward to communicate and operate
- Risk – Our policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via: (i) the balanced use of both short and long term incentive plans which employ a blend of financial, non-financial and shareholder return targets; (ii) the significant role played by equity in our incentive plans; and (iii) malus/clawback provisions.
- Predictability – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits.
- Proportionality – There is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded.
- Alignment to culture – Our Executive pay policies are aligned to culture through the use of metrics in both the annual bonus and LTIP that measure how we perform against our KPIs.

Discretion

The Committee is satisfied that the Remuneration Policy operated as intended during 2019 in terms of Group performance and quantum (see below) and no discretion has been applied in respect of remuneration outcomes.

Performance and remuneration for 2019

Summary of 2019 performance

During 2019, SDL made great progress in its transformation process delivering strategic, operational and financial benefits. The Group achieved all of its KPI targets on the three main areas of customer engagement, product innovation and operational excellence. Revenues increased by 16.4% to £376.3m and included first full 12-month contribution from DLS. Adjusted operating profit increased by 28% to £37.2m benefitting from growth in sales as well as favourable exchange rates.

Executive Directors' 2019 annual bonus

SDL's annual bonus rewards achievement of Group and strategic targets, for performance delivered in line with the Company's risk framework. The Committee scrutinises performance targets to ensure they are sufficiently challenging. Stretching performance ranges are then agreed at the start of the performance period. Annual bonus outcomes for 2019 have been determined based on revenue (37.5% weighting), adjusted operating profit (AOP – see the definition in the APMs on page 143) (37.5%) and strategic targets (25%). Against the financial targets, the Company delivered a revenue of £376.3m (between target and maximum) and an AOP of £35.6m (between threshold and target). This was a good performance in a challenging environment and was delivered against a background of increasing competition and pricing pressures.

The Committee also reviewed the performance of the Executive Directors against their strategic targets and determined that when combined with performance against the financial targets, 55.5% and 54.6% of the maximum bonus opportunity should be awarded to Adolfo Hernandez and Xenia Walters respectively. Since bonus awards are below 100% of salary, no deferral will operate.

Full details of the measures, targets and bonus outcomes are set out in the Annual Report on Remuneration.

Executive Directors' long-term incentives vesting in 2020 based on performance to 31 December 2019

The three-year performance period for LTIP awards granted in 2017 and due to vest in April 2020 ran to 31 December 2019. Performance was measured against two metrics, 50% based on SDL's EPS performance and 50% based on relative TSR performance. Based on SDL's EPS performance (no part of awards vest) and relative TSR (61.9% of this part of awards vest), 31% of the awards will vest in April 2020. As the 2017 LTIP awards were granted prior to Xenia Walters joining the Company, Adolfo Hernandez is the only Executive Director currently holding 2017 LTIP awards.

Implementation of policy in 2020

Executive Directors' salary from 1 April 2020

Adolfo Hernandez's base salary (currently £514,000 p.a.) will not be increased in 2020. He has declined the general workforce increase (noting that the general workforce increase has been deferred until 1 October 2020 as a matter of prudence given that the full impact of COVID-19 is as yet unknown).

As agreed by the Committee in January 2020, Xenia Walters' base salary (currently £291,840 p.a.) will be increased by 6.7% to £311,250 p.a. from 1 April 2020. Xenia Walters joined the SDL Board as CFO in April 2018, after serving as interim CFO from June 2017, on a below market base salary of £285,000 p.a. (and well below the previous incumbent's base salary in 2018 of £320,000 p.a.) to reflect the fact that this was Xenia's first listed plc Board level role. Given that Xenia will have served two years in the role by the normal April 2020 salary review date, the Remuneration Committee wishes to align the salary closer to the market level and the previous incumbent's salary to reflect her development and experience in the role. While the Committee notes that phased salary increases are considered good practice, the Committee wished to limit her 2019 salary increase to UK workforce inflation and only align the

salary to market after at least two successful years in the role (noting that her LTIP award was increased from 100% to 125% of salary last year). She will also be eligible for the deferred general workforce increase at 1 October 2020. Subsequent annual salary increases from 1 April 2021 are expected to be in line with the normal UK workforce inflation.

Executive Directors' annual bonus

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

Executive Directors' long-term incentives

The 2020 LTIP awards are expected to be in line with those granted in 2019 (i.e. 250% of salary for Adolfo Hernandez and 125% of salary for Xenia Walters). The performance targets will continue to be based on EPS targets and relative TSR targets as follows:

- EPS (30% of awards) – 25% of this part of an award will vest for an EPS of 38p rising on a straight line basis with full vesting for this part of an award for an EPS of 52p in 2022. In setting this target range the Committee considered both internal and external forecasts to ensure the targets are appropriately stretching; and
- Relative TSR (70% of awards) – 25% of this part of an award will vest for median TSR rising on a straight line basis with full vesting for this part of an award for an upper quintile TSR measured over the three years to 31 December 2022 measured against the constituents of the FTSE SmallCap (excluding investment trusts).

The reweighting from 50:50 EPS:TSR to 30:70 reflects the continuing uncertainty in respect of the full impact of COVID-19 at the current time.

The awards will be granted as soon as is practicable following the announcement of the 2019 results.

Directors' Remuneration Report continued

Shareholder voting and engagement

During the end of 2018 and the first part of 2019, major shareholders and representative bodies were consulted on the Committee's proposal to roll forward the 2016 Remuneration Policy, which had reached the end of its three-year term. Although no significant Policy changes were proposed at the 2019 AGM, in respect of the implementation of the Policy for 2019, shareholders generally welcomed the Remuneration Committee's proposals to: (i) freeze Adolfo Hernandez's base salary at 1 April 2018 levels (i.e. no increase from 1 April 2019); (ii) significantly enhance the retrospective annual bonus disclosures in respect of the 2018 bonus; (iii) toughen the 2019 LTIP TSR performance target; and (iv) ensure that the 2019 LTIP EPS target range is appropriately challenging and disclosed in advance. While the Committee was pleased with the 98.4% vote for the Directors' Remuneration Report at the 2019 AGM, it noted that a number of shareholders did not support the new Policy, which received 85.4% support. Following a review of the feedback received before and after the 2019 AGM, the Committee is satisfied that the current Remuneration Policy remains fit for purpose and appropriately aligned to both the market and the Company's strategy execution although it will continue to review investor feedback received and will monitor the voting at the 2020 AGM.

Gender pay gap

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

In 2019 we saw a 7% reduction in the mean gender pay gap. We also saw a 15.7% reduction in the mean bonus pay gap compared to 2017 (in 2018 there was a reduced bonus payment).

In the 2019 Annual Talent Review and Succession Management practice 71 people were reviewed of which 32 (45%) were females and nearly half of the females (49%) were rated as Top Talents. Today, across the SDL Group we employ close to equal numbers of men and women, with slightly more women (52%). Three of our ten Executive Committee members are women and over half (51%) make up the Top Talent of SDL.

Finally, I would like to thank our shareholders and I hope we can continue to rely on their support at our AGM on 26 May 2020.

Glenn Collinson
Remuneration Committee Chair
14 April 2020

Remuneration Policy Report

The following section sets out a summary of the Remuneration Policy approved by shareholders at the 2019 AGM. The full policy can be found in the Annual Report 2018 which is available at www.sdl.com.

Policy scope

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

Policy duration

The new Directors' Remuneration Policy Report was approved by shareholders at the AGM on 7 May 2019 and will apply from the date of approval for a maximum of three years.

The Remuneration Policy for Directors

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

Proposed Remuneration Policy objectives

The objective of the Remuneration Policy is to provide remuneration packages to each Executive Director that will

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

Base salary

Purpose and link to strategy	Essential to recruit and retain Executives of a high calibre. Reflects an individual's experience, role and performance.
Operation	Salaries are paid monthly. They are reviewed annually and normally fixed for 12 months commencing 1 April. In deciding appropriate levels, the Committee takes into account: <ul style="list-style-type: none"> – the role, experience, responsibility and performance (individual and Group); – increases applied to the broader workforce; and – relevant market information for similar roles in broadly similar UK listed companies and companies of a similar size. Periodic account of practice in comparable companies in terms of size and complexity will be taken (e.g. comparable technology sector peers and pan-sector companies of a broadly similar size). The Committee considers the impact of any salary increase on the total remuneration package prior to awarding any increases.
Maximum	There is no prescribed maximum. Generally, the Committee is guided by average increases across the workforce. However, higher increases (in percentage of salary terms) may be awarded on occasion, for example (but not limited to): <ul style="list-style-type: none"> – where an individual is promoted or has been recruited on a below market rate; or – in relation to a change in size, scale or scope of an individual's role or responsibilities or in the size or complexity of the business or where salaries have fallen significantly below mid-market levels.
Performance	The Committee reviews the salaries of Executive Directors each year taking due account of all the factors described in how the salary policy operates.

Remuneration Policy Report continued

Benefits

Purpose and link to strategy	To provide competitive benefits to help recruit and retain Executives.
Operation	<p>Benefits include:</p> <ul style="list-style-type: none"> - Car or car allowance - Private medical insurance - Life assurance - Income protection. <p>Executive Directors are also eligible to participate in the all-employee HMRC approved share schemes on the same basis as other employees.</p> <p>Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit. Relocation or related expenses may be offered including tax equalisation to ensure the Executive is no better or worse off.</p> <p>Executive Directors may be offered other benefits if considered appropriate and reasonable by the Committee.</p>
Maximum	<p>There is no prescribed maximum as costs may vary in accordance with market conditions.</p> <p>HMRC tax-approved limits will apply to all employee share schemes.</p>
Performance	Not applicable.

Pension

Purpose and link to strategy	To provide retirement benefits in line with the overall Company policy.
Operation	Directors are eligible to receive employer contributions to the Company's pension plan (which is a defined contribution plan) or a salary supplement in lieu of pension benefits or a mixture of both.
Maximum	12% of salary p.a. (although new Executive Board appointees will have their pension contributions set in line with the pension contributions provided to the majority of the workforce).
Performance	Not applicable.

Annual bonus

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

Remuneration Policy Report continued

2016 Long-Term Incentive Plan

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

Non-Executive Chairman and Non-Executive Directors' fees

Purpose and link to strategy	To attract and retain a high quality Chairman and experienced Non-Executive Directors.
Operation	<p>The Non-Executive Chairman receives a single fee covering all his duties. The Non-Executive Directors receive a basic fee and additional fees payable for chairing the Audit, Nomination and Remuneration Committees and for performing the SID role.</p> <p>The Chairman and Non-Executive Directors shall be entitled to have reimbursed all expenses that they reasonably incur in the performance of their duties, including those expenses that have been deemed to be taxable benefits by HMRC (or equivalent body). This includes any personal tax that may become due on those expenses.</p> <p>The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are reviewed from time to time against broadly similar UK listed companies and companies of a similar size.</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment of the Non-Executive Chairman and Directors.</p>
Maximum	There is no prescribed maximum, however, any increase to fees will be considered in light of the expected time commitment in performing the roles, increases received by the wider workforce and market rates in comparable companies.
Performance	Neither the Non-Executive Chairman nor the Non-Executive Directors are eligible for any performance related remuneration.

Share ownership guidelines

Purpose and link to strategy	To align the interests of management and shareholders and promote a long-term approach to performance.
Operation	Executive Directors are expected to build and maintain a holding of shares to the value of at least 200% of base salary after five years from the latter of appointment date or approval date of this policy.
Maximum	Not applicable.
Performance	Not applicable.

Notes to the Policy table

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

Remuneration Policy Report continued

Bonus and LTIP discretions

The Committee will operate the annual bonus plan and LTIP according to their respective rules and in accordance with the Listing Rules and HMRC rules, where relevant. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (albeit the level of award is restricted as set out in the policy table on pages 59 to 63, above):

- Who participates in the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends); and
- The ability to adjust existing performance conditions for exceptional events, including any M&A activity so that they can still fulfil their original purpose whilst being no less stretching.

Recruitment and promotion policy

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

Salary levels for Executive Directors will be set in accordance with the Company's Remuneration Policy, taking into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the

desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with the approved policy, with relocation or other related expenses provided for if necessary. A pension contribution or cash in lieu in line with the pension contributions provided to the majority of the workforce may be offered.

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

In the case of external recruitment, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this may be provided, taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards, if used, may be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes if necessary and as permitted under the LSE Listing Rules. The aim of any such award would be to ensure that, as far as possible, the expected value and structure of the award will be no more generous than the amount forfeited.

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

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

Service contracts and payments for loss of office

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

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

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

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

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

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

Any statutory payments required by law will be made.

Treatment of incentives

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

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

works being sold out of the Company's Group, or any other circumstances at the discretion Committee.

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

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

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

How shareholders views are taken into account

The Remuneration Committee is committed to ensuring an open dialogue with our shareholders and therefore, where changes are being made to the Remuneration Policy or where there is a material change in the way we operate our policy, we will consult with major shareholders in advance. The Remuneration Committee adopted such an approach in putting together this revised policy by consulting the Company's largest shareholders and shareholder advisory bodies beforehand. In addition, the Committee considers shareholder feedback received in relation to the AGM each year and guidance from shareholder representative bodies more generally.

Consideration of employment conditions elsewhere in the Group

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

External Non-Executive Director appointments

Executive Directors are permitted to serve as Non-Executive Directors of other companies where there is no competition with the Company's business activities and where these duties do not interfere with the individual's ability to perform his duties for the Company.

Annual Report on Remuneration

This Annual Report on Remuneration (together with the Remuneration Committee Chairman's Annual Statement) will be put to a single advisory shareholder vote at the 2020 AGM.

Some of the information in this report is subject to audit. Where this is the case, a heading has been included to state this above the relevant section.

The information below includes details of how we intend to operate our policy in 2020 and of the pay outcomes in respect of the 2019 financial year.

Implementation of Remuneration Policy in 2020

Salaries

Adolfo Hernandez's base salary (currently £514,000 p.a.) will not be increased in 2020 given that he has declined the general workforce increase (although the general workforce increase will, as a matter of prudence, be delayed until 1 October 2020).

As agreed by the Committee in January 2020, Xenia Walters' base salary (currently £291,840 p.a.) will be increased by 6.7% to £311,250 from 1 April 2020. Xenia Walters joined the SDL Board as CFO in April 2018, after serving as interim CFO from June 2017, on a below market base salary of £285,000 p.a. (and well below the previous incumbent's base salary in 2018 of £320,000 p.a.) to reflect the fact that this was Xenia's first listed plc Board level role. Given that Xenia will have served two years in the role by the April 2020 salary review date, the Remuneration Committee wishes to align the salary closer to the market level and the previous incumbent's salary to reflect her development and experience in the role. While the Committee notes that phased salary increases are considered good practice, the Committee wished to limit her 2019 salary increase to UK workforce inflation and only align the salary to market after two successful years in the role (noting that her LTIP award was increased from 100% to 125% of salary last year). In addition, she will be eligible for the average UK workforce increase deferred until October, taking her salary to £320,000 from 1 October 2020. Subsequent annual salary increases from 1 April 2021 are expected to be in line with the normal UK workforce inflation.

Pension and benefits

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

Annual bonus

The maximum bonus opportunity for 2020 will continue to be capped at 150% of base salary for the Adolfo Hernandez and 112.5% of base salary for Xenia Walters. Any bonus payable in excess of 100% of salary will be deferred in shares which will vest after two years, subject to continued employment. The metrics and their weightings for the year ending 31 December 2020 are:

	Adolfo Hernandez % of salary	Xenia Walters % of salary
Adjusted operating profit (AOP)	62.5	46.875
Revenue	62.5	46.875
Strategic targets	25.0	18.75
Total	150	112.5

The weightings of the different metrics for the CEO and CFO are unchanged versus 2019. No bonus will become payable if profit before tax, amortisation and exceptional items is below a profit threshold. The targets themselves are deemed to be commercially sensitive and have not been disclosed prospectively.

At the time of writing, the Committee notes the continuing uncertainty in respect of the full impact of COVID-19 and as such, will ensure that the bonus outcome is appropriate at the time of the performance assessment. Full disclosure of the Committee's approach in this regard, together with the performance targets set and actual performance against the targets, will be provided on a retrospective basis in next year's Directors' Remuneration Report.

Long-term incentives

The 2020 LTIP awards are expected to be in line with those granted in 2019 (i.e. 250% of salary for Adolfo Hernandez and 125% of salary for Xenia Walters) as soon as is practicable following the announcement of results. At the current time, it is envisaged

that performance targets will continue to be based on EPS targets and relative TSR targets as follows:

- EPS (30% of awards) – 25% of this part of an award will vest for an adjusted basic EPS of 38p rising on a straight line basis with full vesting for this part of an award for an EPS of 52p in 2022. In setting this target range the Committee considered both internal and external forecasts to ensure the targets are appropriately stretching; and
- Relative TSR (70% of awards) – 25% of this part of an award will vest for median TSR rising on a straight line basis with full vesting for this part of an award for an upper quintile TSR measured over the three years to 31 December 2022 measured against the constituents of the FTSE SmallCap (excluding investment trusts).

The reweighting of the performance metrics from 50:50 last year to 30% EPS, 70% TSR reflects the continuing uncertainty in respect of the full impact of COVID-19 at the current time. The Committee retains the discretion to revisit the EPS targets to ensure they remain appropriately stretching in light of COVID-19 albeit any adjustments would be fully disclosed in advance of vesting. To the extent they vest, awards held by Executive Directors will be subject to a post-vesting holding period of two years.

Non-Executive Director fees

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

	2020	2019
Chairman	£110,000	£110,000
Basic fee for other Non-Executive Directors	£50,000	£50,000
Supplementary fee for chairing the Audit Committee	£8,000	£8,000
Supplementary fee for chairing the Remuneration Committee	£8,000	£8,000
Supplementary fee for chairing the Nomination Committee	£5,000	£5,000
Supplementary fee for performing the Senior Independent Director role	£3,000	£3,000

The supplementary fee for chairing the Audit Committee was increased on 1 April 2019 from £5,000 to £8,000 p.a.

Information in the table below is subject to audit

Single total remuneration figure for Directors

The following table presents a single total remuneration figure for 2019 (and 2018) for the Executive and Non-Executive Directors.

		Fixed pay			Pay for performance		
		Salary / fees £000s	Benefits ¹ £000s	Pension ² £000s	Annual bonus £000s	LTIP £000s	Total remuneration £000s
Chairman							
David Clayton	2019	110.0	--	--	--	--	110.0
	2018	110.0	--	--	--	--	110.0
Executive Directors							
Adolfo Hernandez	2019	514.0	21.9	61.7	427.6	399.2	1,424.4
	2018	510.5	21.5	61.3	577.2	327.0	1,497.5
Xenia Walters ³	2019	290.0	12.9	34.8	178.3	--	516.0
	2018	213.8	9.4	25.7	181.9	--	430.8
	2018	152.0	--	--	--	--	152.0
Non-Executive Directors							
Mandy Gradden	2019	57.0	--	--	--	--	57.0
	2018	55.0	--	--	--	--	55.0
Alan McWalter	2019	58.0	--	--	--	--	58.0
	2018	58.0	--	--	--	--	58.0
Glenn Collinson	2019	58.0	--	--	--	--	58.0
	2018	58.0	--	--	--	--	58.0
Christopher Humphrey	2019	50.0	--	--	--	--	50.0
	2018	50.0	--	--	--	--	50.0

1 Taxable benefits for the year included: car allowance, private medical insurance and income protection.

2 2019 pension contributions were paid into the Group pension scheme and/or delivered as a cash supplement.

3 Xenia Walters was paid on a contract basis from June 2017 to March 2018. From April 2018 Xenia was employed on a PAYE basis and benefits accrued.

Annual Report on Remuneration continued

2019 annual bonus

Performance versus targets

The maximum annual bonus for Adolfo Hernandez and Xenia Walters for 2019 was 150% and 112.5 % of salary respectively. The annual bonus was based on a mix of Company financial performance targets, split between revenue, profit achievement and strategic targets. Details of performance versus each of the financial targets and strategic targets are provided in the tables below:

	Weighting % of maximum	Reference	Adolfo Hernandez			Xenia Walters		
			% of maximum	% of salary	£000s	% of maximum	% of salary	£000s
Revenue	41.67	Table 1	52.2	32.6	167.5	52.2	24.5	70.9
AOP ¹	41.67	Table 2	41.0	25.6	131.6	41.0	19.2	55.7
Strategic	16.67	Table 3	100	25.0	128.5	95.0	17.8	51.7
Total	100		55.5	83.2	427.6	54.6	61.5	178.3

1 AOP adjusted for IFRS 16 benefit of £1.6m (not factored in when the targets were set).

Table 1: Revenue (up to 41.67% of maximum potential)

Performance	2019 Revenue targets £m	% of this part of the bonus payable on achieving that target	2019 Actual revenue £m	% of this part of the bonus actually paid (max 100%)
Threshold	356.6	—		
Target	380.4	60	376.3	52.2
Maximum	401.1	100		

The scale used to calculate this part of the bonus was as follows: between revenue of £356.6m and £370m the payout increased on a linear scale from 8% to 40% and between a revenue of £370m and £401.1m the payout increased on a linear scale from 40% to 100%.

Table 2: AOP (up to 41.67% of maximum potential) pre IFRS 16 adjustment of £1.6m

Performance	2019 AOP targets £m	% of this part of the bonus payable on achieving that target	2019 Actual AOP £m	% of this part of the bonus actually paid (max 100%)
Threshold	34.2	—		
Target	37.6	60	35.6	41.0
Maximum	41.8	100		

The scale used to calculate this part of the bonus was as follows: between profit of £34.2m and £35.5m the payout increased on a linear scale from 8% to 40% and between a profit of £35.5m and £41.8m the payout increased on a linear scale from 40% to 100%.

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

Targets for 2019 – Adolfo Hernandez	Weighting	Attainment	Payout
Demonstrate sustainable year-on-year growth in Premium Services	30%	30%	7.5%
Increase MT usage from 29.3% to 32.2% (10%)	30%	30%	7.5%
Demonstrate sustainable year on year growth in MT Revenue	10%	10%	2.5%
Improve the SDL employee experience	20%	20%	5.0%
Increase customer satisfaction	10%	10%	2.5%
Total	100%	100%	25.0%

Targets for 2019 – Xenia Walters

	Weighting	Attainment	Payout
Cost savings and synergies	40%	40%	7.5%
Finance transformation	30%	25%	4.7%
Demonstrate sustainable year-on-year growth in Premium Services	10%	10%	1.9%
Increase MT usage from 29.3% to 32.2% (10%)	10%	10%	1.9%
Demonstrate sustainable year on year growth in MT Revenue	10%	10%	1.9%
Total	100%	95%	17.9%

LTIP vesting based on performance ending in 2019

The LTIP values included in the table below relate to awards granted in 2017 which will vest in 2020 dependent on EPS and TSR performance over the three-year period ended 31 December 2019.

Performance target	2019 EPS	Threshold EPS	Maximum EPS	Vesting %
EPS (50% of awards) – adjusted basic	28.1p	30.0p	42.0p	0%

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

Performance target	SDL TSR	Threshold TSR	Maximum TSR	Vesting %
TSR (50% of awards)	33%	11%	48%	61.9%

As a result of EPS (no awards vest) and TSR (61.9% of awards vest) performance, the gross value of LTIP share awards expected to vest in 2020 are as follows:

	Share price at date of grant ¹	Share price at 31 December 2019 ¹	Proportion to vest	Shares expected to vest	Estimated dividend equivalents (shares)	Total shares expected to vest	Estimated value at 31 December £000s ²
Adolfo Hernandez	562.5p	559.2p	30.95%	68,716	2,670	71,386	399.2

1 The share price at grant is based on a five day average immediately prior to the date of grant and the share price at 31 December 2019 is based on a three month average (£559.2p).

2 None of the estimated value of the LTIP awards due to vest at 31 December 2019 is as a result of the Company's share price appreciation since the date of grant.

Share awards granted during the year

	Basis of award granted	Nil-cost options awarded	Face value of awards £000s	Maximum vesting	% vesting for threshold performance	Vesting period
Adolfo Hernandez	250% of salary	246,641	1,285.00	100%	25%	Awards will vest on the third anniversary of grant subject to continued employment and achievement of performance conditions measured over the three financial years ending 31 December 2021
Xenia Walters	125% of salary	68,378	356.25	100%	25%	

Awards were granted as nil-cost options on 17 April 2019 and will vest subject to a relative TSR measure against the constituents of the FTSE SmallCap Index (excluding investment trusts) and EPS growth targets each with an equal weighting. These targets will be assessed independently of each other. The performance period for the award is the three financial years ending December 2021.

– TSR (50%) – No part of this award vests if performance is below the median of the comparator group, 25% vests for achieving performance at the median, with 100% vesting for TSR ranking at or above the upper quintile of the comparator group with straight line vesting in between; and

Annual Report on Remuneration continued

- EPS (50%) – If adjusted basic EPS as disclosed in the Company's accounts for FY 2021 is less than 33p, no part of this award vests, 25% vests for EPS of 33p, with 100% vesting for EPS of 45p or higher, with straight line vesting in between.

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

In addition, 12,128 shares were granted to Adolfo Hernandez in respect of deferred share bonus awards for the 2018 annual bonus. Awards will vest after two years from grant.

Information in the table below is subject to audit

Outstanding Share Plan awards

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

	Type	Award grant date	Share price at grant Pence	As at 1 January 2019	Granted during year	Lapsed during year	Vested during year	As at 31 December 2019	Earliest date shares can be acquired	Latest date shares can be acquired
Adolfo Hernandez	LTIP	8 June 2016 ¹	419.00	298,329	–	230,161	68,168	–	8 June 2021	8 June 2026
	LTIP	18 April 2017 ²	562.50	222,025	–	–	–	222,025	18 April 2022	18 April 2027
	LTIP	16 April 2018 ³	401.00	311,721	–	–	–	311,721	16 April 2023	16 April 2028
	LTIP	17 April 2019 ³	521.00	–	246,641	–	–	246,641	17 April 2024	17 April 2029
	Deferred bonus shares	18 March 2019	550.00	–	12,128	–	–	12,128	18 March 2021	18 March 2025
Xenia Walters		16 April 2018 ³	401.00	71,072	–	–	–	71,072	16 April 2023	16 April 2028
		17 April 2019 ³	521.00	–	68,378	–	–	68,378	17 April 2024	17 April 2029

- 1 Performance in respect of the 2016 LTIP awards was measured against two metrics, 50% against SDL's relative TSR performance and 50% on EPS. Based on SDL's below threshold EPS performance (no part of awards vest) and between threshold and maximum TSR performance (45.7% of this part of awards vest), 22.9% of the awards vested in June 2019.
- 2 Performance in respect of the 2017 LTIP awards was measured against two metrics, 50% based on EPS targets and 50% based on SDL's relative TSR performance. Based on SDL's EPS performance (no part of awards will vest) and TSR performance (61.9% of this part of awards will vest), 30.95% of the awards will vest in April 2020.
- 3 Awards granted in 2018 and 2019 will vest subject to a relative TSR measure against the constituents of the FTSE SmallCap Index (excluding investment trusts) and EPS growth targets. These targets will be assessed independently of each other. The performance period for the award is the three financial years ending 31 December 2020 and 2021 respectively.

TSR

No part of these awards vest if performance is below the median of the comparator group, 25% vests for achieving performance at the median, with 100% vesting for TSR ranking at or above the upper quartile (quintile for the 2019 awards) of the comparator group with straight line vesting in between.

Adjusted basic EPS

2018 awards: If EPS as disclosed in the Company's accounts for FY 2020 is less than 24p, no part of this award vests, 25% vests for EPS of 24p, with 100% vesting for EPS of 27.5p or higher, with straight line vesting in between.

2019 awards: If EPS as disclosed in the Company's accounts for FY 2021 is less than 33p, no part of this award vests, 25% vests for EPS of 33p, with 100% vesting for EPS of 45p or higher, with straight line vesting in between.

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

Information in the table below is subject to audit

Directors' interest in shares

Executive Directors are subject to a share ownership guideline. Executive Directors are expected to accumulate a holding of ordinary shares in the Company to the value of 200% of their salary. Until the guideline is met, the Executive Directors are required to retain 50% of shares acquired under the Company's share plans (after allowing for tax and national insurance liabilities).

The interests of the Directors in the share capital of SDL plc at 31 December 2019 are set out below:

	Owned Number of shares		LTIP awards (nil-cost options) ¹ Number of shares		Deferred bonus share awards (nil-cost options) ² Number of shares		Total Number of shares 2019	% of salary held under shareholding policy 2019
	2018	2019	Unvested	Vested	Unvested	Vested		
Executive Directors								
Adolfo Hernandez	152,500	162,500	780,387	69,889	12,128	–	1,024,904	188%
Xenia Walters	10,490	10,490	139,450	–	–	–	149,940	22%
Non-Executive Directors								
David Clayton	133,950	133,950	–	–	–	–	133,950	–
Glenn Collinson	43,000	43,000	–	–	–	–	43,000	–
Mandy Gradden	7,500	7,500	–	–	–	–	7,500	–
Alan McWalter	–	–	–	–	–	–	–	–
Christopher Humphrey	20,000	20,000	–	–	–	–	20,000	–
Gordon Stuart	–	–	–	–	–	–	–	–

1 LTIP awards are granted in the form of nil-cost options subject to performance – further details can be found in the Outstanding Long-Term Incentive Plan awards table above.

2 Deferred bonus awards are granted in the form of nil-cost options and will normally be eligible to vest after two years from grant subject to continuous employment.

There has been no change in the interests of the current Directors between 31 December 2019 and 14 April 2020.

In assessing compliance against the share ownership guideline, the Committee looks at the value of the shareholding at the year end and may take into account the price at the time shares have been purchased or acquired. The figures above have been calculated using the share price as at 31 December 2019 of 596p.

During the year, Adolfo Hernandez purchased: 10,000 shares at a price of 551.4p.

Payments for loss of office and payments to past Directors

As disclosed last year, payments made in lieu of Dominic Lavelle's notice period were made in quarterly installments and subject to a duty to mitigate his loss. In connection with this, £92,848 was paid during 2019. No further payments were or will be made to Dominic Lavelle.

Information not subject to audit

Details of Directors' service contracts and letters of appointment

Details of the service contracts and letters of appointment in place at 31 December 2019 are as follows:

	Contract date	Notice period Months
David Clayton	1 July 2013	3
Adolfo Hernandez	18 April 2016	12
Xenia Walters	3 April 2018	12
Glenn Collinson	1 June 2014	3
Mandy Gradden	30 January 2012	3
Christopher Humphrey	8 June 2016	3
Gordon Stuart	20 January 2020	3
Alan McWalter	1 March 2014	3

Annual Report on Remuneration continued

CEO pay ratio

The data shows how the CEO's single figure remuneration for 2019 compares to equivalent single figure remuneration for full-time equivalent UK employees, on a Group basis, ranked at the 25th, median and 75th percentile.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	45:1	32:1	20:1

No components of pay and benefits have been omitted for the purpose of the above calculations. Option B was selected given that this method of calculation was considered to be the most robust approach in respect of gathering the required data for 2019.

	25th percentile	Median	75th percentile
Salary	£29,326	£41,750	£51,036
Total pay and benefits	£31,509	£44,494	£71,646

Relative importance of spend on pay

The following table sets out the percentage change in dividends and overall spend of employee pay in the 2019 financial year compared with the prior year.

	2019 £m	2018 £m	% change
Dividends	6.3	5.1	23.5
Total return to shareholders	6.3	5.1	23.5
Employee remuneration costs	197.0	175.6	12.2

Percentage change in CEO pay

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

	2019 £000s	2018 £000s	% change
CEO			
Salary	514.0	510.5	0.7
Benefits	21.9	21.5	1.9
Bonus	427.6	577.2	(25.9)
Full time equivalent average UK employee¹			
Salary	48.2	46.8	3.0
Benefits	1.4	1.6	(12.5)
Bonus	5.1	3.3	54.5

1 There are 557 UK employees at 31 December 2019 (31 December 2018: 535), of which 18 (2018: 34) were part time.

TSR performance graph and CEO single figure history

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO single total figure of remuneration (£000s)	954	1,200	729	597	1,285	1,911 ²	1,252 ²	582	1,502	1,424
Bonus payout (%)	44	47	24	–	53	–	84	–	75.5	55.5
LTIP vesting (%)	100	100	71.5	–	–	2013=0% ¹ 2014=46% 2015=21%	–	–	22.75	30.95

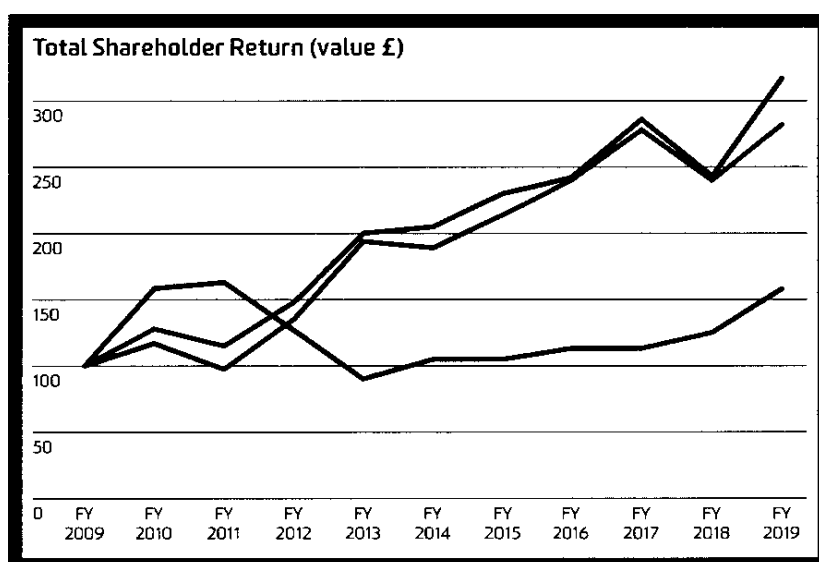
1 Vesting percentages of Mark Lancaster's outstanding LTIP awards at time of resignation.

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

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

Source: Datastream (Thomson Reuters)

— SDL
— FTSE 250 Index excluding investment trusts
— FTSE SmallCap Index excluding investment trusts



Membership of the Remuneration Committee

The Code requires that the Remuneration Committee comprises a minimum of three Non-Executives. The Committee is chaired by Glenn Collinson. The other Committee members are Mandy Gradden, Alan McWalter, Christopher Humphrey and Gordon Stuart.

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

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

Annual Report on Remuneration continued

The Committee received advice during the year from:

- The Chairman, who attends the Remuneration Committee by invitation or when required and the Company Secretary, who attends meetings as Secretary to the Remuneration Committee. The CEO attends the meetings upon invitation. No individual takes part in discussions relating to their own remuneration and benefits.
- The Committee's appointed external adviser (FIT Remuneration Consultants LLP). FIT's fees for advice provided to the Remuneration Committee during 2019, based on time and materials, were £45,364. FIT does not provide any other services to the Group and the Committee is satisfied that it provides independent and objective remuneration advice. FIT is a signatory to the Code of Conduct for Remuneration Consultants in the UK, details of which can be found on the Remuneration Consultants Group's website at www.remunerationconsultantsgroup.com.

External appointments

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

Statement of shareholder voting at the AGM

The following table shows the voting results in respect of the 2018 Annual Statement and Annual Report on Remuneration and the Remuneration Policy at the 2019 AGM:

	For		Against		Withheld Number
	Number	%	Number	%	
2018 Annual Statement and Annual Report on Remuneration (2019 AGM)	79,838,381	98.4	1,307,651	1.6	1,842,799
Remuneration Policy (2019 AGM)	69,324,343	85.4	11,821,689	14.6	1,842,799

While the Committee was pleased with the 98.4% vote for the Directors' Remuneration Report, it noted that a number of shareholders did not support the new Policy. Following a review of feedback received, the Committee is satisfied that the Policy remains fit for purpose but will keep this under review.

Glenn Collinson

Remuneration Committee Chair

14 April 2020

Directors' Report

Incorporated by reference

Certain information that is required to be included in the Directors' Report can be found elsewhere in this document as referred to below, each of which is incorporated by reference into the Directors' Report:

- 03 Strategic Report
- 40 Governance
- 42 Board of Directors
- 81 Financial statements

The Directors present their report, together with the audited accounts for the year ended 31 December 2019.

General information

SDL plc is the ultimate parent company of the SDL Group which operates internationally. SDL plc is registered in England and Wales (company number 2675207). The principal activities of the Group and its subsidiaries are described in the Strategic Report on pages 3 to 38.

Responsibility statement

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

Going concern

The going concern statement required by the Listing Rules and the UK Corporate Governance Code is set out in the Directors' statement of responsibility on page 79.

The Strategic Report on pages 3 to 38 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 34 to 37.

The Directors have considered the impact of COVID-19 in assessing whether the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors have reviewed the current liquidity of the Group, the impact of COVID-19 on the budgets and forecasts which have been prepared across a number of scenarios and the impact on the Group's banking covenants. The stress testing scenarios the Group has run are disclosed in the viability statement on page 38. The Group

had cash in excess of £98m at the date of signing, and has drawn down £63m on its revolving credit facility subsequent to the year end.

The Directors have considered the mitigating actions which would be taken in the event of a material deterioration in the Group's trading and consider that it could take appropriate steps to ensure that the Group has adequate resources to continue in operational existence.

The Group has a £70m committed revolving credit facility (RCF) with HSBC and Lloyds, expiring in July 2023. The agreement also includes a £50m uncommitted accordion facility. The Group's borrowings as at 31 December 2019 was £nil (2018: £5.4m).

After reviewing performance in 2019, the Group's budget, forecasts and three year plans (to 2022), the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. Given this expectation they have continued to adopt the going concern basis in preparing the financial statements. The viability statement is on page 38.

Subsequent events

In early 2020, the existence of a new coronavirus (COVID-19) was confirmed which has since spread across a significant number of countries, leading to disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event and given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the Group or to provide a quantitative estimate of the impact.

As a result of COVID-19, the Group drew down £63m on its revolving credit facility to manage liquidity. Details of the Group's borrowing facilities are provided in note 18.

Directors' Report continued

Corporate governance statement

The Company's statement on corporate governance can be found on page 39. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Strategic Report

The Strategic Report is set out on pages 3 to 38 and is incorporated into this Directors' Report by cross-reference.

Directors

Brief biographical details of the Directors who have served during the year, and up to the date of this report, are set out on pages 42 to 43. Directors are subject to annual re-election.

Powers

The powers of the Directors are set out in the Company's Articles of Association, plus those granted by special resolution at the AGM dated 7 May 2019 governing shares issuance.

Interests in contracts

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

Indemnification

The Company has entered into deeds of indemnity with each of its current Directors to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries. These indemnities are Qualifying Third-Party indemnity provisions as defined in s234 of the Companies Act 2006 and copies are available for inspection at the registered office of the Company during business hours.

Remuneration

Particulars of Directors' remuneration are shown in the Directors' Remuneration Report. Details of service contracts and how a change of control will affect the service contracts of the Executive Directors are also summarised within the Directors'

Remuneration Report. Executive Directors' contracts do not provide for extended notice periods or compensation in the event of termination or a change of control.

Annual General Meeting

Our 2020 AGM will be held virtually at 2:30pm on Tuesday 26 May 2020. The notice of the 2020 AGM will be made available to shareholders and will also be published on the Group website www.sdl.com/About Us/Investor Relations /AGM.

Results and dividends

The Group's Consolidated Income Statement appears on page 90 and note 4 shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's adjusted operating profit for the year was £37.2m (2018: £29m). In view of the ongoing COVID-19 pandemic, the Directors are not recommending a final dividend for FY19.

Sustainability

Information about the Company's approach to sustainability risks and opportunities together with details of our greenhouse gas emissions are set out on page 33.

Employee share schemes and The SDL Employee Benefit Trust (the Trust)

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

Since 31 December 2016, no shares have been purchased by the Trust to satisfy employee awards under The SDL Retention Share Plan. As at 31 December 2019 the Trust holds zero shares.

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

Share capital and control

As at 14 April 2020 the Company's issued share capital comprised a single class of ordinary shares. Details of the structure of the Company's capital and the rights and obligations attached to those shares are given in note 20 to the accounts.

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

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

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

The agreements between the Company and its Directors for compensation for loss of office are given in the Directors Remuneration Report on page 64.

Employees

Information regarding our employees and their involvement within the business, including the Company's policy towards discrimination and diversity can be found on page 30.

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.

Our disclosures relating to the employment of women in senior management roles, diversity and employee engagement are set out on page 30.

Health and safety

The CFO has ultimate responsibility for health and safety.

A Health and Safety Committee, chaired by the CFO, meets regularly to discuss health and safety policy and review activities.

Each location in the Group has a site leader, responsible for day-to-day health and safety activities. Specific tasks are delegated to local managers and suitably trained individuals within the organisation.

SDL's policy on health 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 (2018: zero).

Contractual relationships

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

Political and charitable donations

The SDL Foundation has previously derived the majority of its income from an annual transfer of income from SDL plc based on a percentage of profit. During the year, the plc Board has investigated hybrid methods of funding which include employee volunteering. SDL employees take paid time off to volunteer during work hours (up to five days each per year). Employees can choose to use their

Substantial shareholdings

All persons with a significant holding, along with the value of that holding are given in the table below (share price at 6 March 2020; 544 pence).

Shareholder	As at 6 March 2020		
	Number of shares	% of issued share capital	Value of holding £000s
Aberforth Partners	8,939,228	9.82	48,629
Schroder Investment Management	7,931,045	8.71	43,145
RGM Capital	6,726,292	7.39	36,591
M&G Investments	4,783,591	5.25	26,022
Canaccord Genuity Wealth Management	4,672,533	5.13	25,419
River and Mercantile Asset Management	4,490,052	4.93	24,426
Merian Global Investors	3,854,339	4.23	20,968
Invesco	3,784,725	4.16	20,589
AXA Investment Managers	3,416,070	3.75	18,583
Artemis Investment Management	3,140,940	3.45	17,087
JO Hambro Capital Management	2,931,036	3.22	15,945

Directors' Report continued

volunteering time to support a charity or community group of their own choice, or to take up an opportunity provided by the Foundation. The Board is discussing with the Foundation the ideal funding model in light of donations made in prior periods, the current level of funding requirements and future commitments. In 2019 the number of volunteer days taken by employees was 478 (2018: 175).

No political donations were made during the year. No charitable donations were made to external charities.

Disclosure of relevant audit information

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

Information presented in other sections of the Annual Report

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

- Commentary on the likely future developments in the business of the Group is included in the Strategic Report see pages 3 to 38.
- The Strategic Report and the Governance section outline the Company's relationships with its stakeholders: customers, suppliers, employees and the wider community.
- A description of the Group's financial risk management and its exposure to risks arising are set out in note 24 to the accounts.
- Particulars of events occurring after the balance sheet date are described in note 26 to the accounts and discussed in the Strategic Report.
- Information concerning Directors' contractual arrangements and entitlements under share based remuneration arrangements is given in the Directors' Remuneration Report.
- Information concerning the employment of disabled persons and the involvement of employees in the business is given in the People section on pages 30 to 32 and above.

By order of the Board

Adolfo Hernandez
Director
14 April 2020

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;

- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Adolfo Hernandez

Director
14 April 2020

Financial statements

Contents

Independent Auditor's Report	81
Consolidated Statement of Profit or Loss	90
Consolidated Statement of Other Comprehensive Income	91
Consolidated Statement of Financial Position	92
Consolidated Statement of Changes in Equity	93
Consolidated Statement of Cash Flows	94
Notes to Consolidated Financial Statements	95
Company Balance Sheet	130
Company Statement of Changes in Equity	131
Notes to the Company accounts	132
Alternative Performance Measures	143
Five year Group summary	144
Company information	145

Independent Auditor's Report

to the members of SDL plc

Our opinion is unmodified

We have audited the financial statements of SDL plc (the Company) for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss, Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity, and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the shareholders on 23 April 2010. The period of total uninterrupted engagement is for the 10 financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters: our assessment of risks of material misstatement

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

Overview

Materiality:	£1.4m (2018:£1.2m)	
Group financial statements as a whole	5.1% (2018: 5%) of profit before tax and non-restructuring related exceptional items	
Coverage	78% (2018: 74%) of absolute Group profit before tax ¹	
Key audit matters		vs 2018
New and recurring risks	New: Going concern – the impact of uncertainties due to the global COVID-19 pandemic	▲
	Recurring: Recoverability of Group goodwill	◀▶
	Recurring: Group and Parent: Revenue recognition – technology licence revenue (perpetual and term)	◀▶
	Recurring: Capitalised development costs	◀▶
	New: Transfer pricing provision	▲
	Recurring: Recoverability of Parent's investment in and amounts owed by Group undertakings	◀▶

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

Key audit matter**Going concern – the impact of uncertainties due to the global COVID-19 pandemic**

Refer to page 51 (Audit Committee Report) and page 95 (accounting policy).

The risk**Disclosure quality**

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least 12 months from the date of approval of the financial statements.

As a result of the COVID-19 pandemic (coronavirus), uncertainty about the immediate outlook for many companies has increased sharply. The risk includes the potential impact on customer demand resulting from a global recession, and, ultimately, the potential of adversely impacting the Group's and Company's available financial resources over this period.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our response

Our procedures included:

- **Challenging assumptions:** We challenged the reasonableness of the assumptions and method of management in forecasting of sales and relevant cost assumptions.
- **Sensitivity analysis:** When assessing severe but plausible downside scenarios to the Group's and Company's forecasts we have challenged management to ensure that downsides are sufficiently severe and considered sensitivities over the level of available financial resources with reference to the ability to meet Group and Company cash flow requirements.
- **Evaluating Directors' intent:** We evaluated the achievability of identified mitigating factors and the actions the Directors' consider they would take to improve the position should the risks materialise. Specifically, evaluating the Group's and Company's ability to restrict cash outflows in the case of reduced customer demand.
- **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosures by comparing to the results of our procedures detailed above, our business understanding and our sector experience.

Our results

- We found the disclosure quality to be acceptable (2018: acceptable).

Key audit matter**Recoverability of Group goodwill**

(Language Technologies and Content Technologies)

(£120.8m; 2018: £126.0m)

Refer to page 51 (Audit Committee Report), page 117 (accounting policy) and page 117 (financial disclosures).

The risk**Forecast-based valuation**

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

Goodwill is assessed for impairment using a discounted cash flow model to calculate value in use (VIU). Due to the inherent uncertainty involved in forecasting and discounting future cash flows for a VIU model, this is one of the key judgemental areas on which our audit concentrates.

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

Key audit matter Recoverability of Group goodwill continued**Our response**

Our procedures included:

- **Benchmarking assumptions:** In considering the reasonableness of key external inputs, being the projected long-term economic growth and discount rates, we compared the input assumptions to externally derived data. We challenged assumptions made by the Group and assessed alternatives. We utilised our valuation specialists to assist in the consideration of these external benchmarks.
- In considering the reasonableness of key internal inputs, such as the cash flow forecasts, we considered the reliability of significant assumptions taking into account strategic plans and actual performance in year and post year end.
- **Sensitivity analysis:** We performed sensitivity analysis which considered reasonably possible changes in assumptions and their impact on the valuation;
- **Historical comparisons:** We assessed the historical accuracy of managements' forecasts;
- **Assessing transparency:** We assessed the adequacy of the Group's disclosures as to whether the disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflect the risks inherent in the valuation of goodwill.

Our results

- We found the Group's assessment of the recoverable amount of goodwill in the Group (Language Technologies and Content Technologies) to be acceptable (2018: acceptable).

Key audit matter**Revenue recognition – technology licence revenue (Group and Parent Company)**

(perpetual and term)

(Group – £20.5m; 2018: £21.0m; Parent – £3.3m; 2018 – £1.6m)

Refer to page 51 (Audit Committee Report), page 101 (accounting policy) and page 103 (financial disclosures).

The risk**Accounting treatment**

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

There is a significant audit risk associated with recognising technology licence revenue on bespoke contracts containing multiple performance obligations (such as software licences, support and maintenance and professional services) where some obligations are met at a point in time and others recognised over time.

Management is required to pay particular attention to determine each performance obligation of the arrangement, between up front and over time, and allocating the transaction price to each element based on their respective standalone selling prices regardless of any separate prices stated within the contract. The process around identification of each performance obligation and allocation of transaction price to each of the separate performance obligations could materially affect the timing and quantum of revenue recognised in each period.

Consequently, this is considered to be an area that had a significant effect on the Group audit.

Our response

Our procedures included:

- **Tests of details:** We have inspected those contracts contributing the highest levels of upfront licence revenue. We considered the appropriateness of managements' judgements in determining the identification of performance obligations, allocation of the transaction price to the performance obligations of the selected contracts by reference to standalone selling prices, day rates for consultancy and training and support and maintenance.
- Where appropriate, we agreed elements of the selected contracts that have been delivered to proof of delivery;
- **Assessing transparency:** We assessed the adequacy of the Group and Parent's disclosures in respect of technology licence revenue (perpetual and term).

Our results

- We found the Group and Parent Company's technology licence revenue (perpetual and term) to be acceptable (2018: acceptable).

Independent Auditor's Report continued

to the members of SDL plc

Key audit matter	Capitalised development costs (£7.5m; 2018: £7.6m) Refer to page 51 (Audit Committee Report), page 112 (accounting policy) and page 114 (financial disclosures).
The risk	Accounting judgement The Group capitalises eligible employment costs of its software developers, which are incurred on the development of its software products. In order to determine the amount of cost that should be capitalised, including the proportion of cost associated with its software developers on both new products and enhancements to the Group's existing products, the Group must assess whether the cost meets the capitalisation criteria set out in the relevant accounting standards. This requires significant judgement.
Our response	Our procedures included: <ul style="list-style-type: none"> - Accounting treatment: We assessed whether the Group's development spend across product groups met the criteria for capitalisation in accordance with the relevant accounting standards, with a particular focus on whether development costs would result in a substantial modification to current software products. We achieved this through: <ul style="list-style-type: none"> - Personnel interviews: We made enquiries of the Group's product managers and developers to understand the nature of the modifications and specifically challenge whether modifications were substantial in nature in order to assess whether the development met the required capitalisation criteria. We additionally made enquiries to verify and identify any activities relating to maintenance were correctly included as operating costs; - We also inspected relevant documentation of meetings throughout the year which document how a development has met the capitalisation criteria and the associated costs be capitalised. We additionally inspected product-level forecasts to support the eligibility of the costs for capitalisation in accordance with the relevant accounting standards; - We reviewed the methodology for allocation of the developer costs between operating and development costs and considered the trend over time of the ratio of operating costs to development costs and performed benchmarking of this ratio to similar entities. We also performed testing to determine that all developer costs were split between operating and development with no double counting. - Test of details: On a sample basis, we agreed capitalised amounts to payroll records to support the value of the development cost. Our results <ul style="list-style-type: none"> - We found the capitalised development costs to be acceptable (2018: acceptable).

Key audit matter	Transfer pricing provision (£2.1m; 2018: £1.2m) Refer to page 51 (Audit Committee Report), page 106 (accounting policy) and page 107 (financial disclosures).
The risk	Transfer pricing judgements and estimates The Group operates in a number of tax jurisdictions and there have been a number of local tax authority enquiries/investigations into the Group's transfer pricing arrangements. These enquiries have resulted in the Directors being required to make judgements and estimates in relation to tax issues and ultimately the recognition of uncertain tax provisions in relation to several jurisdictions. The effect of these matters is that, we determined that the value of tax provisions in relation to transfer pricing has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.
Our response	Our procedures included: <ul style="list-style-type: none"> - Our tax expertise: Use of our own transfer pricing tax specialists to assess the Group's transfer pricing tax position, application of its current policy, its correspondence with the relevant tax authorities on open matters, and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts. We have also reviewed other correspondence with the tax authorities to identify any further potential unrecognised provisions related to transfer pricing;

Key audit matter	Transfer pricing provision continued
Our response continued	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Benchmarking assumptions: Assessing the reasonableness of key inputs to the Group's Transfer Pricing Policy including cost plus markups and return on sales for the relevant revenue streams, and royalty and licencing rates for internal and external use of intellectual property. We engaged a transfer pricing specialist to review and compare the Group's assumptions to externally derived data in relation to key inputs. We challenged assumptions made and assessed alternatives; - Assessing transparency: We assessed the adequacy of the Group's disclosures in respect of the provision for transfer pricing related voluntary disclosure, open assessments and further risk of underpaid tax. We also considered whether the financial statement disclosures about the sensitivity of the outcome of the open items and additional potential risk of claims from tax authorities to changes in key assumptions properly reflect the risks inherent in the recognition of tax provisions. <p>Our results</p> <ul style="list-style-type: none"> - We found the level of transfer pricing provisions to be acceptable (2018: acceptable).

Key audit matter	<p>Recoverability of Parent's investment in and amounts owed by Group undertakings</p> <p>(Investment £226.4m; 2018: £224.9m) (Long-term amounts owed by Group undertakings £68.3m; 2018: £70.9m) Refer to page 137 (accounting policy) and page 139 (financial disclosures).</p>
The risk	<p>Low risk, high value</p> <p>The carrying amount of the Parent Company's investment in and amounts owed by Group undertakings represents 58.4% (2017: 70.0%) of the Parent Company's total assets. Their recoverability does not lead to a high risk of significant misstatement, nor is it subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to have had a significant effect on our overall Parent Company audit.</p>
Our response	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Tests of details: We have reviewed of management's assessment of indicators of impairment for the investment and amounts owed by Group undertakings. <p>We have compared the carrying amount of the investment and amounts owed by Group undertakings with the expected value of the business based on the Group's market capitalisation as adjusted by the trade and monetary assets and liabilities held by the parent Company.</p> <p>We have further compared the carrying amount of the investment to the value in use of the Group's assets, being an indication of its recoverable amount to assess whether there are any indicators of impairment of the investment's and amounts owed by group undertakings. Value in use of the Group's assets was audited as part of the Group's audit as disclosed in the goodwill impairment key audit matter above.</p> <p>We have reviewed management's calculation supporting the Group undertakings' ability to generate cash flows to repay the long-term loan amounts owed by the end of the loan term.</p> <p>Our results</p> <ul style="list-style-type: none"> - We found the Group's assessment of the recoverability of the investment in and amounts owed by Group undertakings to be acceptable (2018: acceptable).

Independent Auditor's Report continued to the members of SDL plc

Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £1.4m (2018: £1.2), determined with reference to a benchmark of profit before tax and non-restructuring related exceptional items (of which it represents 5.1% (2018: 5%).

Materiality for the Parent Company financial statements as a whole was set at £0.7m (2018: £0.7m), determined with reference to a benchmark of total assets, of which it represents 0.14% (2018: 0.17%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.07m (2018: £0.06m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 63 (2018: 72) reporting components, we subjected 8 (2018: 8) to full scope audits for Group purposes and 7 (2018: 5) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for Group purposes, but either presented specific individual risks that needed to be addressed or were included in the scope of our Group reporting work in order to provide further coverage over the Group's results.

The components within the scope of our work accounted for the percentages illustrated on page 87.

The remaining 10% (2018: 7%) of total Group revenue, 22% (2018: 26%) of Group profit before tax and 1% (2018: 5%) of total Group assets is represented by 48 (2018: 59) reporting components, none of which individually represented more than 4% (2018: 1%) of any of total Group revenue, Group profit before tax or total Group assets.

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

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materialities, which ranged from £0.2 to £1.0m (2018: £0.2 to £0.8m), having regard to the mix of size and risk profile of the Group across the components.

The Group team visited 10 (2018: 8) component locations in the US and UK (2018: the US, UK and the Netherlands) to assess the audit risk and strategy.

Video and telephone conference meetings were also held with these component auditors and all of the others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor. The Group team performed procedures on the items excluded from Group profit before tax.

We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot

Profit before tax and non-restructuring related exceptional items

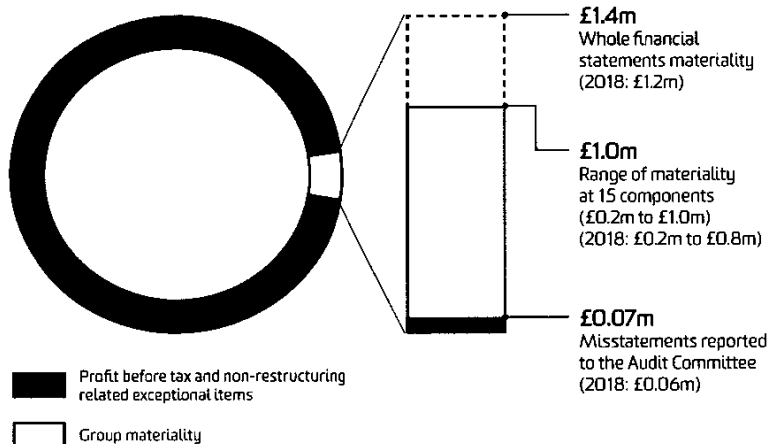
£27.6m

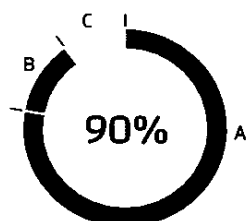
2018: £26.1m

Group materiality

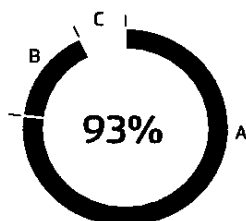
£1.4m

2018: £1.2m

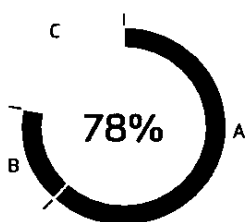


**Group revenue 2019 (%)**

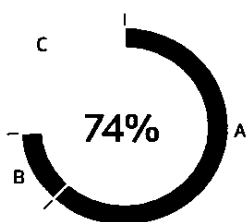
A Full scope for Group audit purposes	78
B Specified risk-focused audit procedures	12
C Residual components	10

**Group revenue 2018 (%)**

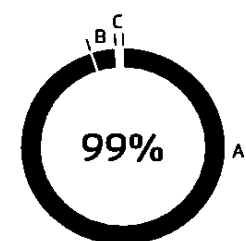
A Full scope for Group audit purposes	77
B Specified risk-focused audit procedures	16
C Residual components	7

**Group profit before tax 2019 (%)**

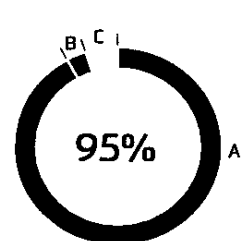
A Full scope for Group audit purposes	62
B Specified risk-focused audit procedures	16
C Residual components	22

**Group profit before tax 2018 (%)**

A Full scope for Group audit purposes	62
B Specified risk-focused audit procedures	12
C Residual components	26

**Group total assets 2019 (%)**

A Full scope for Group audit purposes	95
B Specified risk-focused audit procedures	4
C Residual components	1

**Group total assets 2018 (%)**

A Full scope for Group audit purposes	92
B Specified risk-focused audit procedures	3
C Residual components	5

predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see page 82). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 75 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Independent Auditor's Report continued to the members of SDL plc

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

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

- the Directors' confirmation within the viability statement (page 38) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures;
- we have not identified material misstatements therein; and
- the information therein is consistent with the financial statements; and

- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 79, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group/Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable

profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery and employment law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. Further detail in respect of the transfer pricing provision is set out in the key audit matter section of our audit report in page 84 of this report.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

William Smith

(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
2 Forbury Place,
33 Forbury Road,
Reading RG1 3AD

14 April 2020

Consolidated Statement of Profit or Loss

for the year ended 31 December 2019

	Notes	2019 £m	2018 ¹ £m
Revenue	3	376.3	323.3
Cost of sales		(180.3)	(154.5)
Gross profit		196.0	168.8
Administrative expenses		(166.3)	(149.9)
Operating profit	5	29.7	18.9
Adjusted operating profit		37.2	29.0
Amortisation of acquired intangibles	5	(4.4)	(2.4)
Exceptional items	7	(3.1)	(7.7)
Operating profit		29.7	18.9
Finance expense	8	(2.7)	(0.5)
Profit before tax		27.0	18.4
Tax charge (including an exceptional credit of £nil, 2018: £2.1m)	9	(7.4)	(3.6)
Profit for the year attributable to equity holders of the Parent Company		19.6	14.8
Earnings per share (pence)	11		
– Basic		21.6	17.2
– Diluted		21.1	16.9

1 The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

The accompanying notes to the accounts on pages 95 to 129 form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2019

	2019 £m	2018 ¹ £m
Profit for the year	19.6	14.8
Other comprehensive (expense) / income:		
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange differences arising on the translation of foreign operations	(11.0)	5.0
Foreign exchange differences arising on the translation of foreign currency quasi equity loans to foreign operations, net of tax	1.9	(0.1)
Total other comprehensive (expense) / income	(9.1)	4.9
Total comprehensive income for the year attributable to equity holders of the Parent Company	10.5	19.7

¹ The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

The accompanying notes to the accounts on pages 95 to 129 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2019

	Notes	2019 £m	2018 ¹ £m
Non current assets			
Intangible assets	13	215.2	222.9
Property, plant and equipment	12	11.0	9.1
Right of use assets	22	29.5	–
Deferred tax assets	9	7.0	8.9
Non current tax assets		3.1	–
Other receivables	16a	2.6	2.4
Capitalised contract costs	16b	0.6	0.8
		269.0	244.1
Current assets			
Trade and other receivables	16a	101.6	108.3
Capitalised contract costs	16b	2.1	1.9
Tax assets		4.3	6.6
Cash and cash equivalents	18	26.3	19.8
		134.3	136.6
Total assets		403.3	380.7
Current liabilities			
Trade and other payables	17	(92.5)	(105.1)
Lease liabilities	22	(7.6)	–
Current tax liabilities		(6.8)	(11.2)
Provisions	19	(0.2)	(0.7)
		(107.1)	(117.0)
Non current liabilities			
Trade and other payables	17	(1.9)	(0.7)
Lease liabilities	22	(24.4)	–
Borrowings	18	–	(5.4)
Deferred tax liabilities	9	(8.0)	(8.7)
Non current tax liabilities		(4.3)	–
Provisions	19	(5.1)	(3.3)
		(43.7)	(18.1)
Total liabilities		(150.8)	(135.1)
Net assets		252.5	245.6
Represented by:			
Share capital	20	0.9	0.9
Share premium		136.8	136.0
Retained earnings		94.5	79.3
Translation reserve		20.3	29.4
Total equity		252.5	245.6

1 The Group initially adopted IFRS 16 at 1 January 2019, using the modified retrospective approach. The 2018 results have not been restated for the impact of IFRS 16 under this method of transition.

These consolidated financial statements were approved by the Board of Directors on 14 April 2020 and were signed on its behalf by:

Xenia Walters
Chief Financial Officer

The accompanying notes to the accounts on pages 95 to 129 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £m	Share premium £m	Retained earnings £m	Translation reserve £m	Total £m
At 1 January 2018	0.8	100.7	67.8	24.5	193.8
Profit for the year	–	–	14.8	–	14.8
Other comprehensive income	–	–	–	4.9	4.9
Total comprehensive income	–	–	14.8	4.9	19.7
Issue of shares	0.1	35.3	–	–	35.4
Share-based payments expense (note 21)	–	–	1.9	–	1.9
Share-based payments deferred tax	–	–	(0.1)	–	(0.1)
Dividend paid (note 10)	–	–	(5.1)	–	(5.1)
At 31 December 2018	0.9	136.0	79.3	29.4	245.6
Effect of adoption of IFRS 16 Leases (note 2)	–	–	(0.4)	–	(0.4)
At 1 January 2019 (adjusted)	0.9	136.0	78.9	29.4	245.2
Profit for the year	–	–	19.6	–	19.6
Other comprehensive expense	–	–	–	(9.1)	(9.1)
Total comprehensive income	–	–	19.6	(9.1)	10.5
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)
At 31 December 2019	0.9	136.8	94.5	20.3	252.5

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

The accompanying notes to the accounts on pages 95 to 129 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Cash flow from operating activities			
Profit for the year		19.6	14.8
Tax expense		7.4	3.6
Profit before tax		27.0	18.4
Adjustments for:			
Depreciation of property, plant and equipment	12	3.3	3.1
Depreciation of right of use assets	22	6.0	–
Amortisation of intangible assets	13	9.5	4.6
Share-based payments expense	21	2.4	1.9
Interest expense		2.7	0.5
Foreign exchange expense / (income)		0.9	(0.3)
Cash generated from operations before changes in working capital and provisions		51.8	28.2
Decrease / (increase) in trade and other receivables		6.4	(8.2)
(Decrease) / increase in trade and other payables		(10.4)	18.8
Cash generated from operations		47.8	38.8
Income taxes paid		(7.1)	(2.8)
Net cash flow from operating activities		40.7	36.0
Investing activities			
Purchase of property, plant and equipment	12	(5.6)	(2.2)
Acquisition of subsidiaries, net of cash acquired	27	1.3	(59.2)
Expenditure on intangible assets	13	(10.1)	(12.2)
Net cash flow from investing activities		(14.4)	(73.6)
Financing activities			
Proceeds from issue of shares, net of costs	20	–	35.4
Proceeds from external borrowings	18	26.2	19.6
Repayment of external borrowings	18	(31.4)	(14.4)
Repayment of principal portion of lease liabilities	22	(7.0)	–
Dividends paid	10	(6.3)	(5.1)
Finance costs		(0.7)	(1.4)
Net cash flow from financing activities		(19.2)	34.1
Increase / (decrease) in cash and cash equivalents		7.1	(3.5)
Cash and cash equivalents at 1 January		19.8	22.7
Effect of exchange rates changes		(0.6)	0.6
Cash and cash equivalents at 31 December	18	26.3	19.8

The accompanying notes to the accounts on pages 95 to 129 form part of these financial statements.

Notes to Consolidated Financial Statements

for the year ended 31 December 2019

1 Corporate information

The consolidated financial statements of SDL plc (the 'Group') for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 14 April 2020. SDL plc is a public limited company incorporated and domiciled in England whose shares are publicly traded on the London Stock Exchange. The consolidated financial statements of SDL plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use by the European Union (EU) and therefore the Group's financial statements comply with Article 4 of the EU IAS regulation.

The principal activities of the Group are described in note 3.

2 Significant accounting policies

Note 2 includes a number of the Group's accounting policies. Other accounting policies are included within the respective financial statement note.

Statement of compliance

The consolidated financial statements of SDL plc and its subsidiaries have been prepared in accordance with IFRS as adopted by the EU as relevant to the financial statements of SDL plc. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and these are presented on pages 130 to 142. 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.

Going concern

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

At 31 December 2019, the Group had cash of £26.3m and no borrowings. In addition, the Group has in place a five-year £120m revolving credit facility (RCF), expiring on 19 July 2023, of which £70m is committed. The agreement also includes a £50m accordion (uncommitted) facility. This facility is provided by HSBC and Lloyds and is subject to covenants that, if breached, would result in the facility becoming repayable on demand (see note 18). In March 2020, the Directors drew down a total of £63m of the Group's bank facility to ensure continued liquidity in the face of any potential banking crisis and potential unforeseen liquidity issues as a result of COVID-19. As a result of the draw-down, the Group's gross cash position at 13 April 2020 was £99m. The Group has a resilient balance sheet position, with net assets of £252.5m as at 31 December 2019, having made a profit for the year of £19.6m and delivered net cash flows from operating activities of £40.7m for the year then ended.

As referred to on page 11, the business continuity plans actioned by the Group to date have resulted in operations continuing unaffected 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. Subsequent to year end, revenues and pipeline have continued along pre COVID-19 forecast levels such that the trading in Q1 has been in line with expectations.

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 includes a 3 month phased return), which the Directors believe to be a severe but plausible scenario. All revenue reduction modelling is accompanied by a multi-phased cost reduction plan. The first phase of cost controls totalling £8.0m is already in progress and includes a combination of actions including prioritisation of insourcing to reduce linguistic outsourcing costs, a deferral of the annual inflationary pay rise across the Company, 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. Cash controls such as the decision to withdraw any recommendation of a final 2019 dividend have also been put in place, as referred to in the Chairman's Statement.

In addition, the Directors have also prepared a further downside scenario which assumes a 35% reduction in revenue for six months followed by a phased return in Q4. In such a case, which the Directors believe is highly unlikely, further cost reduction actions, which are all in the control of the Directors, would be instigated. These include further restrictions in freelance translator costs, reduction in consultant costs, reduction in variable compensation due to trading performance and further delay of inflationary pay rises. The Directors have more extensive cost cutting actions open to them, such as additional measures to reduce salary costs and the use of government's support schemes (including the furlough scheme), but do not believe at this time that these would need to be implemented.

In the scenarios modelled, including the further downside scenario where the liquidity headroom is not large, the forecasts indicate that the Group will be able to operate within the amount and terms of the available facilities, including when the Group repay its RCF drawdown at the first optional repayment dates of £30m in June 2020 and £33m in September 2020.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

2 Significant accounting policies continued

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.

Basis of consolidation

The consolidated historical financial information has been prepared under the historical cost convention and is presented in Sterling (GBP). All values are rounded to the nearest 0.1 million (£m) unless otherwise indicated. The functional currency of SDL plc is Sterling. The accounting policies used in preparing the consolidated historical financial information for the year ended 31 December 2019 have been consistently applied to all years presented and are as set out below. The Annual Report consolidates the financial information of SDL plc and the entities it controls (its subsidiaries) at 31 December 2019. 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 revised IFRSs

IFRS 16 and IFRIC 23 have been applied from 1 January 2019. IFRS 16 has been issued and is effective from 1 January 2019. The impact of the adoption of these standards is described below.

IFRS 16 Leases

The Group has adopted IFRS 16 Leases (IFRS 16) with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policies and updated its internal processes and controls relating to leases.

IFRS 16 supersedes IAS17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – incentives and SIC-27 Evaluation the Substance of Transactions involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Group has minimal leases where the Group is a lessor, primarily in respect of immaterial subleases held by the Group. The Group's policy for accounting for leases prior to 1 January 2019 is included in note 22.

The Group has applied IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the practical expedient available under IFRS 16 not to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 respectively at the date of initial application.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except the short-term leases and leases of low-value assets.

In addition, on transition to IFRS 16, the Group has taken advantage of the additional practical expedients and has:

- Used a single discount rate for a portfolio of leases with reasonably similar characteristics,
- Relied on the previous assessments of where leases are onerous immediately before the date of initial application,
- Applied the short-term leases exemptions to leases with lease terms that end within 12 months of the date of initial application,
- Excluded the initial direct costs from the measurement of the right of use asset at the date of initial application where applicable,
- Used hindsight in determining where certain leases contain options to extend or terminate the leases.

The effect of adoption of IFRS 16 as at 1 January 2019 is, as follows:

	£m
Assets	
Right of use assets	30.5
Property, plant and equipment	(0.5)
Trade and other receivables (in respect of rent prepayments)	(0.6)
Deferred tax assets	0.5
Total assets	29.9

2 Significant accounting policies continued

Liabilities

Lease liabilities	32.5
Deferred tax liabilities	–
Trade and other payables (in respect of accrued rent and lease incentives)	(2.2)
Total liabilities	30.3

Equity

Retained earnings	(0.5)
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Based on the above, as at 1 January 2019:

- Right of use assets of £30.5m were recognised and presented separately in the statement of financial position. The Group did not have any lease assets previously recognised as finance leases to include within this balance, subsequently, the Group's property, plant and equipment has not been adjusted.
- Additional lease liabilities of £32.5m were recognised and are included as a component of trade and other payables, under lease liabilities.
- Prepayments of £0.6m and trade and other payables of £2.2m recognised in respect of operating leases as previously classified were derecognised.
- Deferred tax liabilities were adjusted by £nil and deferred tax assets adjusted by £0.5m in respect of the changes in assets and liabilities.
- The net effect of these adjustments has been included within opening retained earnings and equates to a reduction of £0.5m.

The Group's only material portfolio of leases relate to its property, there are immaterial leases in place for vehicles and other office equipment. Before the adoption of IFRS 16, under IAS 17, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. At the point of transition to IFRS 16, the Group did not hold any leases which it had previously classified as finance leases, all leases were classified as operating leases.

The Group recognised right of use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low value assets. The right of use assets for leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rates as at the date of initial application, being 1 January 2019.

Lease liabilities were recognised based on the present value of the remaining lease payments, discounted applying the incremental borrowing rate at the date of initial application, the Group's weighted average incremental borrowing rate was 5.0%. The range applied across leases was between 1.9% and 11.8%.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitments as at 31 December 2018	42.2
Less:	
Commitments relating to short-term leases	(3.5)
Commitments relating to leases of low value assets	(1.4)
Adjusted operating lease commitments as at 31 December 2018	37.3
Impact of applying the incremental borrowing rate (see below)	(4.8)
Lease liabilities as at 1 January 2019	32.5
 Weighted average incremental borrowing rate as at 1 January 2019	 5.0%

IFRIC 23

The Group has reviewed the provisions of IFRIC 23 Uncertainty over Tax Treatments and has not identified any impact from the new standard.

Notes to Consolidated Financial Statements continued for the year ended 31 December 2019

2 Significant accounting policies continued

Other amendments

The following amendments, which were effective for the first time in the current year but had no impact on the results or financial position of the Group:

- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term interests in Associates and Joint Ventures
- Annual Improvements to IFRSs (2015-2017 Cycle)
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.

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 2020 and earlier application is permitted. The Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

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

- 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 IAS 1 Classification of Liabilities as Current or Non current.

Business combinations

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of 1 January 2004. As a result, goodwill recognised as an asset at 31 December 2003 is recorded at its carrying amount and is not amortised. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Transaction costs are expensed as incurred. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. If the business combination allows for a provision of deferred or contingent consideration, this will be provided in the accounts at the fair value.

Any changes to the fair value of deferred or contingent consideration are recognised in income statement. If the business combination allows for deferred compensation this will be recognised in the income statement over the service period.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the income statement. The assets and liabilities of overseas subsidiaries and branches are translated at the closing exchange rate. Income statements of such undertakings are translated at the average rate of exchange during the year. Gains and losses arising on these translations are recognised in Other Comprehensive Income and accumulated in a separate component of equity. As permitted by IFRS 1, the Group has elected to deem the cumulative amount of exchange differences arising on translation of the net investments in subsidiaries at 1 January 2004 to be nil.

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

Intra-company loans for which settlement is neither planned nor likely to occur in the foreseeable future are defined as quasi-equity loans. Currency translation differences on retranslation of these loans at the balance sheet date are recognised in the Statement of Comprehensive Income. On disposal of a foreign entity, the deferred accumulated amount recognised in equity relating to that particular foreign operation is recognised in the Consolidated Statement of Profit or Loss.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, unless they relate to capitalised assets. These costs include interest payable, commitment and amortised arrangement fees.

2 Significant accounting policies continued

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 Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company 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 Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company'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 repayable in 90 days or less. For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and bank deposits net of outstanding bank overdrafts.

Trade payables

Trade payables are recognised at cost, which is deemed to be materially the same as the fair value.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognised when the Group becomes party to the related contracts and are measured initially at fair value less directly attributable transactions costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the re-purchase, settlement or other cancellation of liabilities are recognised respectively in finance income and finance expense.

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition 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.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

2 Significant accounting policies continued

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 on page 101.

This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. Licence revenue in the year amounted to £51.2m (2018: £46.7m).

Capitalised development costs

The Group capitalises development costs in line with IAS 38, Intangible Assets. Management applies judgement in determining if the costs meet the criteria, and are therefore eligible for capitalisation. Significant judgements include the technical feasibility of the development, recoverability of the costs incurred, economic viability of the product and potential market available considering its current and future customers and when, in the development process, these milestones have been met. Development costs capitalised during the year amounted to £7.5m (2018: £7.6m).

Estimates and assumptions

The key assumptions and estimates concerning the future and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Determination of fair values of intangible assets acquired in business combinations

Intangible assets acquired in business combinations are important to the revenue generating capacity of the Group. The recognition of intangible assets requires management to apply judgement, and may require management to contract with specialists to assist when it deems necessary. The recognition of goodwill in a business combination results from assets which do not qualify for separate recognition, such as an assembled workforce, and buyer-specific synergies.

The fair values are based on a market participant's ability to utilise the assets, determined using a method appropriate to the specific intangible asset, and reflect assumptions and estimates that have a material effect on the carrying value of the asset. Key assumptions and estimates made in valuing the acquired intangible assets include:

- Cash flow forecasts prepared at the time of acquisition, which involve estimating future business volumes;
- The discount rate applied to the forecasted future cash flows; and
- The costs to recreate the asset.

The nature and inherent uncertainty relating to these assumptions and estimates means that the actual cash flow may be materially different from the forecast, and would therefore have led to a different asset value. See note 13 for the useful lives and amortisation policies regarding intangible assets acquired in business combinations.

Impairment

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash generating unit (CGU) or group of CGUs to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the CGUs, management's estimates of discount rates, long-term operating margins and long-term growth rates (note 15). If the results of the CGU in a future period are materially adverse to the estimates used for the impairment testing, an impairment charge may be triggered.

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, 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 9.

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 £13.5m (2018: £16.7m).

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 22.

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.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

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.

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:

	2019 £m	2018 £m
Language Services	262.1	218.2
Professional services	15.1	13.1
Licence revenue ¹	51.2	46.7
Hosting services	3.2	2.6
Support and maintenance revenue	44.7	42.7
Total revenue	376.3	323.3
Goods and services transferred at a point in time	32.3	28.9
Goods and services transferred over time	344.0	294.4
Total revenue	376.3	323.3

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 2019 was £39.8m (2018: £37.3m). Additional disaggregation of the Group's revenue by location and by segment is included in note 4.

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 16b to these financial statements.

Contact 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 total value of transaction price allocated to unsatisfied or partially unsatisfied performance obligations at the year end is £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 Segment information

For internal management reporting purposes, the operating segments are determined by product and service groupings and referred to as divisions. The Group's operating segments are:

- Language Services
- Language Technologies
- Content Technologies

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profits represent the profit earned by each segment without allocation of central administration costs which are presented as a separate line below segment profit. This is the measure reported to the Chief Operating Decision Maker, the Chief Executive Officer,

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

4 Segment information continued

and Senior Management Team for the purposes of resource allocation and assessment of segment performance. Transfer prices between segments are on an arm's length basis.

	2019 Revenue £m	2019 Depreciation and amortisation £m	2019 Adjusted operating profit £m	2018 Revenue £m	2018 Depreciation and amortisation £m	2018 Adjusted operating profit £m
Language Services	262.1	3.9	28.5	218.2	3.2	23.0
Language Technologies	53.6	0.4	10.2	49.8	1.0	9.5
Content Technologies	60.6	0.1	16.1	55.3	1.1	14.9
Segment total	376.3	4.4	54.8	323.3	5.3	47.4
Central costs			(17.6)			(18.4)
Group adjusted operating profit			37.2			29.0
Exceptional items			(3.1)			(7.7)
Amortisation on acquired intangibles			(4.4)			(2.4)
Operating profit			29.7			18.9
Finance costs			(2.7)			(0.5)
Profit before taxation			27.0			18.4

	2019 £m	2018 £m
Geographical analysis of external revenues by location of customer		
UK	42.8	36.7
EMEA (excluding UK)	79.5	68.2
USA	150.1	129.3
Americas (excluding USA)	12.1	10.4
Asia Pacific	91.8	78.7
	376.3	323.3

	2019 £m	2018 £m
Geographical analysis of external revenues by location of SDL Group entity		
UK	76.8	67.1
EMEA (excluding UK)	86.6	85.1
USA	152.1	120.5
Americas (excluding USA)	17.1	15.0
Asia Pacific	43.7	35.6
	376.3	323.3

The Group's revenue is diversified across its entire end customer base and no single end user accounted for greater than 10% of the Group's revenue in either 2019 or 2018.

	2019 £m	2018 £m
Geographical analysis of non current assets excluding deferred tax and rent deposits		
UK	64.6	53.0
USA	106.5	95.7
Rest of world	88.2	84.1
	259.3	232.8

Goodwill and intangibles recognised on consolidation are included in the country which initially acquired the business giving rise to the recognition of goodwill and intangibles.

5 Profit on ordinary activities

	2019 £m	2018 £m
Operating profit is stated after charging		
Research and development expenditure	24.4	17.6
Depreciation of property, plant and equipment	3.3	3.1
Depreciation of right of use assets (note 22)	6.0	–
Amortisation of acquired intangible assets	4.4	2.4
Amortisation of other intangible assets	5.1	2.2
Lease rentals for plant and machinery	0.6	0.1
Lease rentals for land and buildings ¹	3.4	8.3
Net foreign currency differences	0.9	0.5
Share-based payments expense	2.4	1.9

¹ 2018 not restated for the effects of IFRS 16.

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 £7.5m (2018: £7.6m) of development costs in the year.

	2019 £m	2018 £m
Auditor's remuneration		
Fees payable to the Company's auditors of the Parent Company and consolidated accounts	0.6	0.5
Audit of the financial statements of subsidiaries of the Parent Company	0.2	0.1
Audit related assurance services	0.1	–
Total	0.9	0.6

6 Employee costs

Accounting policy

Pension cost

The Group operates defined contribution pension schemes for its employees. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions to defined contribution schemes are recognised in the Consolidated Statement of Profit or Loss in the period in which they become payable.

	2019 £m	2018 £m
Wages and salaries	180.9	147.9
Social security costs	20.6	18.6
Defined contribution pension scheme cost	5.8	5.1
Share-based payments expense (note 21)	2.4	1.9
	209.7	173.5

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

	2019 Number	2018 Number
Administration and commercial	1,283	1,204
Production	2,959	2,675
Total average number of employees	4,242	3,879

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £1.4m (2018: £1.4m), and Company pension contributions of £0.1m (2018: £0.1m) were made to a money purchase scheme on their behalf. During the year, the highest paid Director did not exercise any share options and received shares under a long-term incentive scheme.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

7 Exceptional items

Accounting policy

Exceptional items are those items that in management's judgement should be disclosed separately by virtue of their size, nature or incidence, in order to provide a better understanding of the underlying financial performance of the Group. In determining whether an event or transaction is exceptional, management considers qualitative as well as quantitative factors such as frequency or predictability of occurrence.

	2019 Pre tax £m	2019 Tax impact £m	2019 Total £m	2018 Pre tax £m	2018 Tax impact £m	2018 Total £m
Restructuring costs	2.5	(0.6)	1.9	4.1	(1.0)	3.1
Acquisition related costs	0.1	(0.1)	—	2.8	(0.1)	2.7
Other exceptional items	0.5	(0.1)	0.4	0.8	—	0.8
Total exceptional	3.1	(0.8)	2.3	7.7	(1.1)	6.6

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.

Acquisition related costs

Acquisition related costs of £0.1m include acquisition-related integration costs offset by the settlement of indemnity claims made subsequent to the re-measurement period.

Other exceptional items

Other exceptional costs include a £0.6m (2018: £0.8m) tax penalty and associated interest which is considered exceptional due to its size and nature. The amount represents management's best estimate of the tax penalties and interest that will arise in connection with revisions to certain transactions that have occurred in prior years.

8 Finance expense

	2019 £m	2018 £m
Interest expense on borrowings (note 18)	1.1	0.5
Finance costs on lease liabilities under IFRS 16 (note 22)	1.6	—

9 Taxation

Accounting policy

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The Group operates in numerous tax jurisdictions around the world. 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.

9 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' on page 122, 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 2019 is calculated at 19% (2018: 19%) of the estimated assessable profit for the period.

	2019 £m	2018 £m
Current tax:		
UK corporation tax at 19% (2018: 19%)	1.3	1.5
Overseas current tax (credit) / charge	3.9	(0.3)
Adjustment in respect of previous years	1.0	–
Total current tax charge	6.2	1.2
Deferred tax:		
Origination and reversal of temporary differences	1.5	2.4
Adjustments to estimated amounts arising in prior periods	(0.3)	–
Total deferred tax charge	1.2	2.4
Total tax charge as per the income statement	7.4	3.6
Tax in other comprehensive income	(0.3)	–
Tax in equity	–	(0.1)
Tax attributable to the Group	7.1	3.5

In 2018, the Group finalised its last s382 calculation in respect of prior US acquisitions. The completion of this exercise together with other deferred tax adjustments gave rise to an exceptional deferred tax credit of £2.1m. This is included within the origination and reversal of temporary differences in the prior year.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

9 Taxation continued

The charge for the year can be reconciled to profit for the year before taxation per the Consolidated Statement of Profit or Loss as follows:

	2019 £m	2018 £m
Profit for the year before taxation	27.0	18.4
Profit for the year before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	5.1	3.5
Effects of:		
Expenses not deductible for tax purposes	0.6	1.3
Adjustment in respect of previous years	0.7	–
Recognition of previously unrecognised trading losses / timing differences	(0.3)	(2.1)
Utilisation of tax losses brought forward previously not recognised	(0.3)	(0.4)
Higher/ (lower) tax rates on overseas earnings	1.5	0.6
Other movements	0.1	0.7
Tax charge as per the income statement	7.4	3.6
Effective tax rate	27%	20%

The Group's taxation strategy is aligned to its business strategy and operational needs. Oversight of taxation is within the remit of the Audit Committee. The CFO is responsible for tax strategy supported by a global team of tax professionals and advisers. SDL strives for an open and transparent relationship with all revenue authorities and are vigilant in ensuring that the Group complies with current tax legislation.

The Group's tax rate is sensitive to the geographic mix of profits and reflects a combination of higher rates in certain jurisdictions, such as Germany and Japan, a lower rate in the UK and USA, with other rates that lie in between. As such the Group's effective tax rate is higher than the UK's statutory tax rate mainly due to its mix of profits. The Group is subject to many different forms of taxation including, but not limited to, income and corporation tax, withholding tax and sales taxes.

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

Key influences

In the UK, a reduction in the corporate tax rate from 19% to 17% from April 2020 was enacted on 6 September 2016. The US Tax Cuts and Jobs Act was enacted on 22 December 2017, reducing the statutory rate of US Federal corporate income tax from 35% to 21% with effect from 1 January 2018.

Tax liabilities are recognised when it is considered probable that there will be a future outflow of funds to a taxing authority. The methodology used to estimate liabilities is set out in note 2. In common with other multinational companies and given the Group has operations in 39 countries, transfer pricing arrangements are in place covering transactions that occur between Group entities. The Group has undertaken a review of potential tax risks and current assessments and whilst it is not possible to predict the outcome of any pending revenue authority investigations, adequate provisions are considered to be included in the Group accounts to cover any expected estimated future settlement. In carrying out this review, management 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 (2018: £2.0m) to the UK tax authorities (after the use of tax losses) and repayment of £3.1m from the Irish tax authorities (2018: £3.2m) 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.

Expected future rate and Brexit

The Group does not anticipate any significant impact on the future tax charge, liabilities or assets, as a result of the triggering of Article 50(2) of the Treaty on European Union, but cannot rule out the possibility that, for example, a failure to reach satisfactory arrangements for the UK's future relationship with the EU, could have an impact on such matters. On 11 March 2020 the UK Budget was held and it was announced that the planned reduction in the UK Corporation Tax Rate from 19% to 17% will no longer be enacted. The Group does not expect this to have a material impact on the carrying value of its deferred tax assets and liabilities in the UK.

9 Taxation continued

Deferred tax assets and liabilities are attributable to the following:

	2019 £m	2018 £m
Deferred tax assets in relation to:		
Tax value of carry forward losses of UK subsidiaries	–	0.3
Tax value of carry forward losses of overseas subsidiaries	2.5	6.2
Movements in capital allowances	0.8	0.2
Other timing differences	3.7	2.2
Total deferred tax asset	7.0	8.9
Deferred tax liabilities in relation to:		
Intangible assets	5.5	5.2
Other timing differences	2.5	3.5
Total deferred tax liability	8.0	8.7

The value of transfer pricing uncertain tax positions at the year end was £2.1m (2018: £1.2m).

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 £80.3m (2018: £105.9m) available for offset against future profits. A deferred tax asset has been recognised in respect of £11.8m (2018: £30.8m) of such losses. No deferred tax asset has been recognised in respect of the remaining £68.5m (2018: £75.1m) 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 £2.5m (2018: £6.5m). 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 £13.0m (2018: £15.5m). 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 the expiry. The Group has losses in the US which have a 20 year expiry date and expects to use these losses within this period.

Included within other short-term temporary differences are deferred tax assets in respect of potential share-based compensation tax benefits of £1.0m (2018: £0.5m) and a deferred tax liability in respect of business combination intangible assets of £5.3m (2018: £5.3m).

Reconciliation of movement on deferred tax asset:

	2019 £m	2018 £m
At 1 January	8.9	11.2
Adjustment on initial application of IFRS 16	0.5	–
As at 1 January (adjusted)	9.4	11.2
Retranslation of opening balances	–	0.1
Recognition of previously unrecognised losses	0.3	1.9
Tax loss utilised in the period	(4.0)	(4.4)
Temporary differences arising in the period	1.3	–
Deferred tax asset arising on share-based payments recorded in statement of changes in equity	–	0.1
Deferred tax asset at 31 December	7.0	8.9

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

9 Taxation continued

Reconciliation of movement on deferred tax liability:

	2019 £m	2018 £m
At 1 January	8.7	1.6
Arising on business combination	–	5.3
Retranslation of opening balances	–	0.1
Reversal of temporary differences arising on the amortisation of intangibles	–	(0.3)
Other temporary differences arising in the period	(0.7)	0.6
Tax effect of capitalised development	–	1.4
Deferred tax liability at 31 December	8.0	8.7

The deferred tax asset of £7.0m (2018: £8.9m) and liability of £8.0m at 31 December 2019 (2018: £8.7m) have been calculated based on the applicable tax rates in the UK and overseas territories.

10 Dividends

	2019 £m	2018 £m
Final ordinary dividend for the year ended 31 December 2018 was 7.0 pence per share (year ended 31 December 2017: 6.0 pence per share)	6.3	5.1

The Group pursues a progressive dividend policy, with the aim of increasing the Sterling value of ordinary dividends over time broadly based on the Group's underlying growth in earnings, while taking into account capital requirements and cash flows. Future dividends will be dependent upon future earnings, the future financial condition of the Group and the Board's dividend policy. The Board reviews the appropriate level of total annual dividend each year at the time of the full year results. The distributable reserves of SDL plc at 31 December 2019 amounted to £56.0m. The Group will not be recommending a final dividend for the year ending 31 December 2019 (2018: 7.0p).

11 Earnings per share

Accounting policies

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the basic earnings per share for the effects of share options and awards granted to employees. These are included in the calculation when their effects are dilutive.

Adjusted earnings per share

Adjusted earnings per share is a trend measure, which presents the long-term profitability of the Group excluding the impact of specific transactions that management considers affects the Group's short-term profitability. The Group presents this measure to assist investors in their understanding of trends. Adjusted operating profit is the numerator used for this measure. The Group has identified the following items to be excluded when arriving at adjusted operating profit: amortisation of acquisition intangible assets and exceptional items.

11 Earnings per share continued

The following reflects the income and share data used in calculating EPS:

	2019 £m	2018 £m
Profit for the year	19.6	14.8
Exceptional items charged within operating profit	3.1	7.7
Amortisation on acquired intangibles	4.4	2.4
Tax effect of the above	(1.7)	(1.6)
Exceptional tax credit	—	(2.1)
Adjusted profit for the year	25.4	21.2
	Number	Number
Weighted average number of ordinary shares	90,760,708	86,147,916
Effects of dilution from share options	2,072,690	1,657,337
Weighted average number of ordinary shares adjusted for the effect of dilution	92,833,398	87,805,253
	Pence	Pence
Basic EPS	21.6	17.2
Diluted EPS	21.1	16.9
Adjusted basic EPS	28.1	24.7
Adjusted diluted EPS	27.4	24.2

12 Property, plant and equipment

Accounting policy

Property, plant and equipment are stated at historical cost less depreciation and any impairment in value. Historical cost includes the expenditure that is directly attributable to the acquisition of the assets. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment over their estimated useful economic lives as follows:

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

Useful economic lives and residual values are assessed annually.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognising the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

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

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

12 Property, plant and equipment continued

	Leasehold improvements £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost				
As at 1 January 2018	5.5	29.9	2.8	38.2
Additions	–	1.4	0.7	2.1
Acquired through business combinations	–	0.3	0.1	0.4
Disposals	–	(1.6)	(0.1)	(1.7)
Effect of movements in exchange rates	0.1	1.0	–	1.1
As at 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)
As at 31 December 2019	7.8	31.0	3.5	42.3
Accumulated depreciation:				
As at 1 January 2018	(1.7)	(25.1)	(1.8)	(28.6)
Charge for the year	(0.6)	(2.2)	(0.3)	(3.1)
Disposals	–	1.5	0.1	1.6
Effect of movements in exchange rates	–	(0.9)	–	(0.9)
At 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
At 31 December 2019	(2.8)	(26.3)	(2.2)	(31.3)
Net book value:				
As at 31 December 2019	5.0	4.7	1.3	11.0
As at 31 December 2018	3.3	4.3	1.5	9.1

13 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.

13 Intangible assets continued

Accounting policy continued

Intangible assets with a finite life have no residual value and are amortised over their expected useful lives as follows:

Intangible assets arising on acquisition of subsidiaries

- Customer relationships are amortised on a straight line basis over their estimated useful life of between 5 and 15 years.
- Intellectual Property and Software Development are amortised on a straight line basis over their estimated useful life of between 1.5 and 10 years.
- Goodwill is not amortised but is subject to annual impairment testing (see note 15).

Other purchased intangible assets

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

The amortisation expense on non-acquired intangible assets with finite lives is recognised in the Consolidated Statement of Profit or Loss as an administrative expense. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least annually. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with indefinite useful lives (goodwill) are tested for impairment annually either individually or at the 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.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

13 Intangible assets continued

	Customer relationships £m	Intellectual property £m	Goodwill £m	Capitalised development £m	Software £m	Total £m
Cost:						
At 1 January 2018	16.6	59.2	208.0	2.5	7.1	293.4
Additions	–	–	–	7.6	4.6	12.2
Acquired on business combination	30.1	4.3	22.3	–	–	56.7
Disposals	–	–	–	–	(0.4)	(0.4)
Effect of movements in exchange rates	1.6	1.4	5.0	–	–	8.0
At 31 December 2018	48.3	64.9	235.3	10.1	11.3	369.9
Additions	–	–	–	7.5	2.4	9.9
Re-measurement of goodwill	–	–	(1.2)	–	–	(1.2)
Disposals	–	–	(17.1) ¹	–	–	(17.1)
Effect of movements in exchange rates	(1.5)	(2.0)	(5.9)	–	–	(9.4)
At 31 December 2019	46.8	62.9	211.1	17.6	13.7	352.1
Amortisation:						
At 1 January 2018	(16.2)	(58.4)	(65.9)	–	–	(140.5)
Charge for the year	(0.9)	(1.5)	–	(1.1)	(1.1)	(4.6)
Disposals	–	–	–	–	0.4	0.4
Effect of movements in exchange rates	(1.4)	(0.9)	–	–	–	(2.3)
At 31 December 2018	(18.5)	(60.8)	(65.9)	(1.1)	(0.7)	(147.0)
Charge for the year	(2.0)	(2.4)	–	(3.9)	(1.2)	(9.5)
Disposals	–	–	17.1 ¹	–	–	17.1
Effect of movements in exchange rates	0.5	2.0	–	–	–	2.5
At 31 December 2019	(20.0)	(61.2)	(48.8)	(5.0)	(1.9)	(136.9)
Net book value						
At 31 December 2019	26.8	1.7	162.3	12.6	11.8	215.2
At 31 December 2018	29.8	4.1	169.4	9.0	10.6	222.9

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

14 Investments in subsidiaries

Details of the investments which the Group or Company holds are included below. All investments are 100% owned:

Name of Company	Registered address of business	Country of incorporation
Holding Company and other entities		
SDL MLS GmbH	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Holdings BV	Jupiter Plaza Arena, Herikbergweg 78-80, 1101 CM, Amsterdam	Netherlands
SDL Nominees Ltd ¹	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 ¹	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Interlingua Group Ltd ¹	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom

14 Investments in subsidiaries continued

Name of Company	Registered address of business	Country of incorporation
Holding Company and other entities continued		
Alterian Holdings Ltd ¹	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Intrepid Consultants Ltd ¹	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alpnet UK Ltd ¹	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Computype Ltd ¹	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
Language Services		
SDL Belgium NV	Vital Decosterstraat 44, 3000 Leuven, Belgium	Belgium
SDL do Brazil Global Solutions Ltda	Rua Barao do Trinfo 73, Rooms 63-67, Brooklin Paulista, Sao 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 ¹	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Hellas MEPE	Philippou 6, Metamorfofi, 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 ¹	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
SDL Traduceri SRL	Scala Office Building, Floors 4-7, 34 Somesuluist, Cluj-Napoca, Romania	Romania
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 Jozelta Jame 14, 1210 Ljubljana	Slovenia
Software Development Language Solutions, Hispania, SL	Calle Goya 8, 28001, Madrid, Spain	Spain

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

14 Investments in subsidiaries continued

Name of Company	Registered address of business	Country of incorporation
Language Services continued		
Software Documentation Localization Spain, S.L.	Calle/Andres Segovia, no 53, 4 Planta, Edificio, Be Business, CP18008 Granada	Spain
SDL Sweden AB	Fatbursgatan 1, Stockholm, S-118 28 Sweden	Sweden
SDL Turkey Translation Services and Commerce Ltd	Kosnyola Mahalles, Mahmut, Ksari Caddesi, No 51, Ksnyola B34718, Istanbul	Turkey
SDL Sheffield Limited	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Language Services and Technology		
DL Software Technology (Shenzhen) Co Ltd	Room 309, Floor 3, Resources Tech-Building, Songping ShanRoad, High-Tech Industrial Park, Nanshan District, Shenzhen City, Guangdong, 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
Technology		
SDL Technologies (Australia) Pty Ltd	Nexia Sydney Pty Ltd, Level 16, 1 Market Street, Sydney, NSW 2000	Australia
SDL Passolo GmbH ¹	Waldburgstrasse 21, 70563, Stuttgart	Germany
Trados GmbH ¹	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Verwaltung GmbH ¹	Waldburgstrasse 21, 70563, Stuttgart	Germany
SDL Tridion GmbH ¹	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 ¹	Jupiter Plaza Arena, Herikbergweg 78-80, 1101 CM, Amsterdam	Netherlands
SDL Xopus BV ¹	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	Fatbursgatan 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 ¹	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
SDL Tridion Ltd	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
XyEnterprise Ltd ¹	New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead SL6 4UB	United Kingdom
Alterian Technology Ltd ¹	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.

15 Impairment testing of goodwill and intangibles

Accounting policy

At least annually, or when otherwise required, Directors review the carrying amounts of the Group's tangible and intangible assets to determine whether there is any indication 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 Group's CGUs are; Language Services, Language Technologies, Content Technologies. In the prior year, following the acquisition of DLS, the Group considered DLS as a standalone CGU. Following the integration of DLS post-acquisition, the assets and cash flows are now considered to have been integrated into the existing CGUs.

The carrying amount of goodwill had been allocated as follows. As a result of this review, no impairment has been identified.

	2019 £m	2018 £m
Carrying amount of goodwill allocated to CGUs		
Language Services	41.5	21.1
Language Technologies	56.4	59.6
Content Technologies	64.4	66.4
DLS	—	22.3
	162.3	169.4

For the year ended 31 December 2019, the Directors have reviewed the value of goodwill based on internal value in use calculations. The key assumptions for these calculations are discount rates and growth rates. The Group prepares cash flow forecasts derived from the Directors' most recent financial forecasts for the following three years based on a Board approved three year plan. The growth rates for the three-year period are based on Directors expectations of the medium-term operating performance of the CGU, planned growth in market share and industry forecasts. Growth in the market and specific regional considerations are in line with past experience. Discount rates have been estimated based on rates that reflect current market assessments of the Group's weighted average cost of capital.

The key assumptions used in the assessments in the year ended 31 December 2019 are as follows:

	Pre tax discount rate 2019 %	Pre tax discount rate 2018 %
Assumptions applied		
Language Services	14.0	13.7
Language Technologies	15.0	14.6
Content Technologies	14.9	15.1
DLS	—	14.3

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

15 Impairment testing of goodwill and intangibles continued

	2019 %	2018 %
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	7.0	6.9
Language Technologies	6.5	5.7
Content Technologies	5.1	6.8
DLS	–	10.6
Year 4 and 5 revenue growth rates		
Language Services	6.0	6.0
Language Technologies	5.0	6.5
Content Technologies	5.5	8.5
DLS	–	6.0

Sensitivity to changes in assumptions

Management has identified two key assumptions which could significantly impact the impairment test: post-tax discount rate and revenue growth applied to each year before perpetuity.

The Directors consider reasonably possible changes in the assumptions above required for the recoverable amount of the Content Technologies, Language Technologies, operating segments to equal their carrying amounts are shown below:

	Language Services	Language Technologies	Content Technologies
Recoverable amounts exceeds carrying amount	£152.8m	£60.8m	£85.4m
Reduction in revenue growth rate in each year	3.4%	3.7%	5.3%
Increase in post-tax discount rate	11.2%	10.8%	14.6%

Having performed an impairment test on the Language Services CGU, and having analysed the various sensitivities to this test, management believe that no reasonably possible change in any of the key assumptions would cause the carrying value of the Language Services CGU to exceed its recoverable amount. The Directors' review takes into account reasonably possible changes as at the balance sheet date. The Director's acknowledge the impact of COVID-19, as referred to throughout this annual report and the potential impact that this may have on future cash flows. Due to the ongoing uncertainty, it is not possible to quantify the impact of COVID-19 on the Group's future cash flows.

16a Trade and other receivables

Accounting policy

Trade and other receivables are carried at amortised cost less expected credit losses. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets.

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers and geographies.

Accrued income assets relate to the Group's rights to consideration for work completed but not billed at the reporting date for language and professional services. Accrued income balances are transferred to trade receivables when an invoice is issued to the customer.

16a Trade and other receivables continued

Trade and other receivables due within one year

	Gross 2019 £m	Provisions 2019 £m	Net 2019 £m	Gross 2018 £m	Provisions 2018 £m	Net 2018 £m
Trade receivables¹	82.6	(2.3)	80.3	83.6	(3.6)	80.0
Accrued income	14.0	(0.5)	13.5	17.2	(0.8)	16.4
Prepayments and other receivables	7.8	–	7.8	11.9	–	11.9
Trade and other receivables due within one year	104.4	(2.8)	101.6	112.7	(4.4)	108.3
Other receivables due after one year	2.6	–	2.6	2.4	–	2.4

1 In 2019, the Group has reclassified accrued income of £3.5m to trade receivables.

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
2019	80.3	57.5	13.4	3.0	6.4
2018	80.0	53.2	10.2	5.1	11.5

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 2019 and 2018. 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 25.

Provision for impairment

As at 31 December 2019, trade receivables at nominal value of £2.3m (2018: £3.6m) were impaired and provided for. In addition, expected credit losses were recognised against accrued income totalling £0.5m (2018: £0.8m). Movements in the provisions for expected credit losses were as follows:

	Trade receivables £m	Accrued income £m
At 1 January 2018	1.7	0.5
On acquisition	1.3	0.3
Charge for the year	0.6	–
Utilised in the year	–	–
At 31 December 2018	3.6	0.8
Charge for the year	–	–
Released in the year	(0.7)	(0.3)
Utilised in the year	(0.6)	–
At 31 December 2019	2.3	0.5

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

16b Trade and other receivables

Accounting policy

Capitalised contract costs primarily relate to sales commission costs capitalised under IFRS 15 and are amortised over the length of the contract. 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.

	2019 £m	2018 £m
Capitalised contract costs		
Capitalised contract costs (over one year)	0.6	0.8
Capitalised contract costs (less than one year)	2.1	1.9
Total capitalised contract costs	2.7	2.7

No impairment has been recognised in respect of capitalised contract costs (2018: £nil). The amount of amortisation recognised through the profit and loss statement is £0.8m (2018: £0.9m).

17 Trade and other payables

	2019 £m	2018 £m
Trade and other payables due within one year		
Trade payables	9.0	10.4
Other taxes and social security costs	2.3	3.6
Other payables	4.1	4.8
Accruals	39.4	46.5
Deferred income	37.7	39.8
	92.5	105.1
Trade and other payables due after one year		
Deferred income	1.9	0.7

18 Cash and borrowings

	2019 £m	2018 £m
Cash		
Cash at bank	26.3	19.8

The fair value of cash and cash equivalents is £26.3m (2018: £19.8m). Restricted cash at 31 December 2019 was £0.4m (2018: £0.3m).

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.

	2019 £m	2018 £m
Net cash		
Cash and cash equivalents	26.3	19.8
Borrowings	–	(5.4)
Net cash	26.3	14.4

18 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 includes a £50m accordion (uncommitted) facility. At 31 December 2019, £nil was drawn on the facility (2018: £5.4m).

Drawdowns under the £70m committed RCF are repayable in one, three and six month instalments and amounts can be redrawn at any time as long as covenant and other conditions are met. Accordingly drawdowns under this facility have been categorised as non current. The loan bears interest at LIBOR+ margin, the margin varying between 1.15% and 2.15% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation and amortisation. Covenants on the RCF are limited to a net debt to EBITDA ratio of 3:1 and a minimum of 4:1 on EBITDA to interest.

	2019 £m	2018 £m
Movement in debt		
At 1 January	5.4	–
Proceeds from borrowings	26.2	19.6
Repayment of borrowings	(31.4)	(14.4)
Cashflows	–	–
Exchange movements	(0.2)	0.2
At 31 December	–	5.4

The Group has used the revolving credit facility during the year as a means of working capital management, full details of the Group's consideration of liquidity risk is included as part of note 24.

19 Provisions

Accounting policy

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. The expense relating to any provision is presented in the Consolidated Statement of Profit or Loss net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance expense.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. For the purpose of calculating any onerous lease provision, the Group takes the discounted future lease payments (if any), net of expected rental income. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

	Property leases £m	Tax related £m	Total £m
At 1 January 2019	1.6	2.4	4.0
Charged to the income statement	0.2	1.6	1.8
Release during the year	(0.2)	(0.2)	(0.4)
Transfers	(0.2)	0.2	–
Utilised during the year	(0.1)	–	(0.1)
At 31 December 2019	1.3	4.0	5.3
Current 2019	0.1	0.1	0.2
Non current 2019	1.2	3.9	5.1
Current 2018	0.5	0.2	0.7
Non current 2018	1.1	2.2	3.3

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

19 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 (£0.3m, 2018: £0.3m) and over five years (£0.8m, 2018: £0.8m). Amounts provided are management's best estimate of the likely future cash outflows.

At 1 January 2019 the Group adopted IFRS 16, full details of the impact of the adoption is included in note 2 to the financial statements. As part of the change in accounting standards, onerous lease provisions were derecognised and a lease payable recognised for future lease payments, with a lease receivable recognised for the expected future value of sublet income. Onerous leases at the point of transition were not material.

Tax related

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 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; the Group continues to actively monitor current legislation to ensure compliance in all territories.

20 Share capital

	2019 Millions	2018 Millions	2019 £m	2018 £m
Allotted, called up and fully paid				
Ordinary shares of 1p each				
At 1 January	90.6	82.3	0.9	0.8
– Issued on exercise of share options	–	0.1	–	–
– Issued on exercise of LTIPs	0.3	–	–	–
– Issued on placing	–	8.2	–	0.1
– At 31 December	90.9	90.6	0.9	0.9

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

- 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.

The following movements in the ordinary share capital of the Company occurred during 2018:

- 55,328 ordinary shares of 1p each were allotted under the SDL Share Option Scheme (1999) and SDL Share Option Scheme (2010) at a price range of 278.9p to 333.5p per share for an aggregate consideration of £158,238.
- 78,778 ordinary shares of 1p each were allotted under the SDL Save As You Earn Schemes for an aggregate consideration of £260,214.
- 23,404 ordinary shares of 1p were allotted under the SDL LTIP 2011 Scheme.
- 8,234,400 ordinary shares of 1p were placed at a price of 440.0p per share and issued on 18 July 2018 for a consideration of £36,231,360. Fees of £1.2m have been deducted from share premium.

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.

21 Share-based payment plans

Accounting policy

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding long-term incentive plans (LTIPs) are subject to some non-market performance conditions. These include EPS growth 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. 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 £2.4m relating to the Group's employee share schemes (2018: charge of £1.9m). Of this amount, a charge of £nil (2018: charge of £0.1m) has been recognised within exceptional costs. Details of the Group's principal employee share schemes are set out below.

SDL Long-Term Incentive Plans

The SDL Long-Term Share Incentive Plan, which was approved by shareholders in April 2011 (the 2011 Plan), expired for the purposes of new awards in April 2016. No further awards could be made after the expiry date but existing awards will remain protected although they will only vest to the extent that the related performance conditions are met.

The 2011 Plan has been replaced with the SDL Long-Term Share Incentive Plan (2016) (the 2016 Plan) which received approval from shareholders in April 2016. The 2016 Plan is broadly similar in construction. It has been updated to reflect current law and market practice and the proposed performance conditions are designed to be more closely aligned to the Company's current business strategy and objectives. The shares granted under the 2016 Plan are dependent on EPS and TSR performance conditions.

The fair value of equity-settled shares granted under the SDL Long-Term Incentive Plan is estimated as at the date of grant dependent on the performance criteria within the plan. The 2011 Plan uses a Monte Carlo model whereas the 2016 Plan uses a different valuation methodology for each performance criteria as is considered most appropriate. This results in a Monte Carlo model being used for the grants issued with a TSR performance criteria and a Black-Scholes model for the grants issued with an EPS performance criteria, taking into account the terms and conditions upon which the options were granted. The following table lists the key inputs to the model used in the year of grant:

	2019 Monte Carlo	2019 Black-Scholes	2018 Monte Carlo	2018 Black-Scholes
Expected volatility	37.9%	37.9%	36.4%	36.4%
Weighted average fair value at grant date (pence)	364p	521p	248p	496p
Expected life	3 years	3 years	3 years	3 years
Expected dividends	0.78%	0.78%	1.5%	1.5%
Risk-free interest rate	0.78%	0.78%	0.92%	0.92%

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

21 Share-based payment plans continued

	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Outstanding at the beginning of the year	3,041,571	£0.01	1,985,287	£0.01
Granted during the year	1,148,984	£0.01	1,483,945	£0.01
Exercised during the year	(50,850)	£0.01	–	£0.01
Forfeited during the year	(501,922)	£0.01	(427,661)	£0.01
Outstanding at the end of the year	3,637,783	£0.01	3,041,571	£0.01
Exercisable at 31 December	172,082		44,192	

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

22 Leases

Accounting policy

The Group has lease contracts for numerous properties. Leases vary considerably in duration and can range from 12 month terms to 15 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the underlying assets. The Group has several leases which include extension and termination options which are discussed further below.

The Group also has certain leases of property as well as some leases for office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases (see note 2 for full details).

Group as a lessee

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

	Property £m
At 1 January 2019 (restated)	30.5
Additions	3.7
Depreciation expense	(6.0)
Re-measurement adjustments	0.9
Currency adjustment	0.4
At 31 December 2019	29.5

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

	2019 £m	2018 £m
As at 1 January	32.5	–
Additions	3.7	–
Accretion of interest	1.6	–
Re-measurement adjustments	0.9	–
Repayments	(7.0)	–
Currency adjustment	0.3	–
At 31 December	32.0	–
Current	7.6	–
Non current	24.4	–

A full maturity analysis of lease liabilities is disclosed in note 25.

22 Leases continued

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

	2019 £m	2018 £m
Depreciation expense of right-of-use assets	6.0	–
Interest expense on lease liabilities	1.6	–
Expense relating to short term leases (included in administrative expenses)	3.5	–
Expense relating to leases of low value assets (included in administrative expenses)	0.6	–
Total amount recognised in profit or loss	11.7	–

The Group had total cash outflows for leases of £11.1m in 2019. The Group had no non-cash additions to right-of-use assets and lease liabilities in 2019. 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.

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 early termination or extension 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 £0.2m (2018: £0.2m).

23 Related party disclosures

Compensation of key management personnel of the Group

	2019 £m	2018 £m
Salary and benefits ¹	2.1	1.2
Pension cost	0.1	0.1
Total compensation paid to key management personnel	2.2	1.3

1 The 2019 figures include Non-Executive Director fees of £0.3m, the 2018 comparatives have not been restated.

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

23 Related party disclosures continued

In addition to the amounts above £nil has been paid to XWFD Limited for CFO services, a company beneficially owned by Xenia Walters, the Group's CFO (2018: £0.2m) prior to her appointment as CFO on 1 April 2018.

Full details of the Directors' remuneration is included in the Directors' Remuneration Report on pages 56 to 74.

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.

24 Financial risk management objectives and policies

An explanation of the Group's financial risk management objectives, policies and strategies are set out in the Strategic Report on pages 3 to 38.

Interest rate risk

Net cash has increased from £14.4m in 2019 to £26.3m in 2019. Borrowings were £nil (2018: £5.4m). The Group has access to a committed facility of £70m which bears interest at LIBOR+ margin when drawn, the margin varying between 1.15% and 2.15% depending on the ratio of the Group's total net debt to its adjusted earnings before interest, tax, depreciation and amortisation. The Board remains of the opinion that operating with low levels of debt is appropriate in the current economic environment, whilst maintaining sufficient debt facility headroom to finance normal investment activities.

To ensure adequate working capital the Group maintains cash deposits and these deposits are affected by any movements in rates of interest generally. These cash deposits are generally receiving interest income at LIBOR (or US Dollar, Euro equivalent) plus a margin. The Group seeks to place all cash surplus to operational requirements in secure money market funds. To enhance the interest earning capacity of the Group, processes have been put in place to ensure that cash balances held by subsidiary companies are kept as low as operationally possible. With regard to relative interest rates, adequate cash is retained in key operating currencies to fund the operational needs of the Group.

Due to the low level of debt within the Group and the limited amount of cash surplus to operational requirements, there is no material sensitivity to a change in interest rates.

Liquidity risk

The Group's objective is to optimise the funds currently available to it in order to maintain the lowest operational borrowing profile necessary. 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 18). At the end of 2019, the Group had net cash of £26.3m 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. The Group's existing loan facility expires on 19 July 2023.

Foreign currency risk

A significant amount of business is done with customers in both the USA and Continental Europe with approximately 50% of total invoicing done in US Dollar and 25% in Euro. The most significant sensitivity is to the US Dollar as illustrated below. This overseas client base gives rise to short-term debtors and cash balances in both US Dollars and Euros.

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 2019, 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.

24 Financial risk management objectives and policies continued

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.

	2019 £m	2018 £m
Profit before tax:		
+ 1%	(1.1)	(1.1)
- 1%	1.1	1.1
Statement of Financial Position ¹ increase / (decrease) in net assets		
+ 1%	(1.1)	(0.8)
- 1%	1.2	0.8

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

	2019 £m	2018 £m
Profit before tax gain / (loss)		
+ 1%	0.2	(0.2)
- 1%	(0.2)	0.2
Statement of Financial Position ¹ increase / (decrease) in net assets		
+ 1%	(1.3)	(1.3)
- 1%	1.4	1.3

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.

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.

25 Financial instruments

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the Group as at 31 December is as follows:

	2019 £m	2018 £m
Floating rate		
Cash	1.0	1.0

Notes to Consolidated Financial Statements continued

for the year ended 31 December 2019

25 Financial instruments continued

Maturity of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019. 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
2019					
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
Borrowings	–	–	–	–	–
Total	74.4	50.0	18.5	7.1	75.6
2018					
Trade payables	10.4	10.4	–	–	10.4
Accruals	46.5	46.5	–	–	46.5
Lease liabilities	–	–	–	–	–
Borrowings	5.4	–	–	5.4	5.4
Total	62.3	56.9	–	5.4	62.3

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

Credit risk

The maximum credit risk exposure related to financial assets is £93.9m (2018: £96.4m) represented by the carrying value of trade receivables and accrued income.

Fair values of financial assets and liabilities

The carrying value of financial assets and liabilities approximate their fair value. The Directors consider that there were no material differences between the book values and fair values of all the Group's financial assets and liabilities at each year end. The fair values have been calculated using the market interest rates where applicable.

There are no hedging arrangements in place as at 31 December 2019 (2018: None).

The interest rate risk on the borrowings at 31 December 2019 is directly linked to the one, three month and six month LIBOR and is set out on page 126. The interest rates that the Group would pay under the facilities are linked directly to these LIBOR rates.

26 Post balance sheet events

In early 2020, the existence of a new coronavirus (COVID-19) was confirmed which has since spread across a significant number of countries, leading to disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event and given the inherent uncertainties, it is not practicable at this time to determine the exact impact of COVID-19 on the Group or to provide a quantitative estimate of the impact.

As a result of COVID-19, the Group drew down £63m on its revolving credit facility to manage liquidity. Details of the Group's borrowing facilities are provided in note 18.

27 Acquisition of Donnelley Language Solutions (prior period)

In the prior year, on 23 July 2018, the Group acquired the Donnelley Language Solutions (DLS) business for cash consideration of \$77.8m. The acquisition was funded by internal cash resources, an equity placing which raised £36.2m (£35.0m net of fees) and a £19.6m (\$25.6m) drawdown under the Group's banking facility (see note 18). During the current year, the Group has identified adjustments to the acquired fair values, which have led to a total reduction in goodwill, amounting to £1.3m.

27 Acquisition of Donnelley Language Solutions (prior period) continued

Acquisition-related costs

In the current year, the Group incurred acquisition-related costs of £0.1m (2018: £2.3m) on legal fees and due diligence costs. These costs have been included in exceptional items which are in turn included within administrative expenses in profit or loss (note 7).

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition, as well as the identified adjustments, to reconcile to the adjusted goodwill values in the current year.

Fair value of identifiable net assets acquired	Note	Fair value £m	Adjustments £m	Revised £m
Property, plant and equipment	12	0.4	–	0.4
Intangible assets – customer relationships	13	30.1	–	30.1
Intangible assets – intellectual property	13	4.3	–	4.3
Trade and other receivables	16a	14.0	1.1	15.1
Cash and cash equivalents	18	0.2	–	0.2
Trade and other payables		(6.6)	0.2	(6.4)
Deferred tax		(5.3)	–	(5.3)
		37.1	1.3	38.4
Goodwill		22.3	(1.3)	21.0
Total consideration				59.4
Satisfied by cash				59.4
Cash flow:				
Total consideration				59.4
Cash included in undertaking acquired				0.2
Net cash consideration in cash flow statement				59.2

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the assembled workforce of the acquired entity, the Company's ability to attain new customers going forwards and the value of intangible assets beyond their estimated useful lives.

For the five months ended 31 December 2018, DLS contributed revenue of £27.8m and profit before tax of £1.8m to the Group's results.

Measurement of fair values

The fair value of DLS's intangible assets (technology intellectual property and customer relationships) has been measured by an independent valuer.

Trade receivables comprise gross contractual amounts due of £9.5m, of which £0.8m was expected to be uncollectable at the date of acquisition and has been provided within these financial statements.

Accrued income assets relate to rights to consideration for work completed but not billed at the reporting date for language and professional services. A provision for impairment of £0.1m against these balances at the date of acquisition has been recognised.

An adjustment to recognise a holiday pay accrual, in line with Group policy, of £0.4m has been recognised at the date of acquisition. Deferred income has been restated to its fair value of the Group's services obligation at the date of acquisition.

Re-measurement of fair values

During the year, the Group identified a number of variances between the acquisition date fair values as initially assessed compared with the subsequent values. As a result, the Group has, during the measurement period, adjusted for the fair values as shown in the table above and reflected the overall movements in net assets acquired in the form of a reduction of the Goodwill balance recognised.

28 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 £2.5m in the ordinary course of business. These are not expected to result in any material financial loss.

Company Balance Sheet

at 31 December 2019

	Notes	2019 £m	Restated ¹ 2018 £m
Fixed assets			
Tangible assets	2	3.9	4.3
Intangible assets	3	14.9	12.4
Investment in subsidiaries	4	226.4	224.9
Right of use assets	10	12.4	–
Deferred tax asset		1.2	–
		258.8	241.6
Current assets			
Debtors (amounts falling due in more than one year £68.3m, 2018: £70.9m)	5	231.5	172.6
Cash at bank and in hand		14.3	8.2
		245.8	180.8
Current liabilities			
Creditors: amounts falling due within one year	6	(193.8)	(144.1)
Lease liabilities	10	(2.3)	–
		(196.1)	(144.1)
Net current assets		49.7	36.7
Total assets less current liabilities		308.5	278.3
Creditors: amounts falling due after more than one year		(91.9)	(75.7)
Lease liabilities	10	(11.8)	–
Other payables	8	–	(0.3)
Provisions for liabilities and charges	9	(2.3)	(0.8)
		202.5	201.5
Capital and reserves			
Called up share capital		0.9	0.9
Share premium account		136.8	136.0
Profit and loss account		64.8	64.6
Total equity		202.5	201.5

1. See note 1 for details of the prior year restatement.

Approved by the Board of Directors on 14 April 2020.

Xenia Walters
Chief Financial Officer

Company Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £m	Share premium account £m	Profit and loss account £m	Total £m
At 1 January 2018	0.8	100.7	70.7	172.2
Loss for the period	–	–	(3.2)	(3.2)
Dividend paid	–	–	(5.1)	(5.1)
Currency translation differences on net investments	–	–	0.4	0.4
Arising on share issues	0.1	35.3	–	35.4
Share-based payments	–	–	1.9	1.9
Share-based payments (deferred tax)	–	–	(0.1)	(0.1)
At 1 January 2019	0.9	136.0	64.6	201.5
Effect of adoption of IFRS 16 Leases	–	–	(0.5)	(0.5)
At 1 January 2019 (adjusted)	0.9	136.0	64.1	201.0
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)
At 31 December 2019	0.9	136.8	64.8	202.5

At 31 December 2019 the Company had distributable reserves of £56.0m (2018: £58.7m).

Notes to the Company accounts

for the year ended 31 December 2019

1 Accounting policies

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

Basis of preparation

The financial statements are prepared under the historical cost convention as modified for certain items which have been measured at fair value, namely financial instruments. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

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

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

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

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

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

- IFRS 2 Share-based Payments in respect of Group settled share-based payments; and
 - Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.
- IFRS 16 Leases
- The Company proposes to continue to use the reduced disclosure framework of FRS 101 in its next financial statements.

Going concern

The Directors have prepared cash flow forecasts for a period of (at least 12) months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Application of new and revised IFRSs

IFRS 16 and IFRIC 23 have been applied from 1 January 2019. IFRS 16 has been issued and is effective from 1 January 2019. The impact of the adoption of these standards is described below.

IFRS 16 Leases

The Company has adopted IFRS 16 Leases (IFRS 16) with a date of initial application of 1 January 2019. As a result, the Company has changed its accounting policies and updated its internal processes and controls relating to leases.

IFRS 16 supersedes IAS17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluation the Substance of Transactions involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Group has minimal leases where the Group is a lessor, primarily in respect of immaterial subleases held by the Company.

1 Accounting policies continued

The Company has applied IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the practical expedient available under IFRS 16 not to reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 respectively at the date of initial application.

Details of the practical expedients utilised by the Company are disclosed in note 2 to the Group's financial statements.

The effect of adoption of IFRS 16 as at 1 January 2019 is, as follows:

	£m
Assets	
Right of use assets	11.6
Property, plant and equipment	(0.5)
Trade and other receivables	(0.2)
Deferred tax assets	0.2
Total assets	11.1
Liabilities	
Lease liabilities	13.0
Deferred tax liabilities	–
Trade and other payables	(1.4)
Total liabilities	11.6
Equity	
Retained earnings	0.5

The Company's only material portfolio of leases relate to its property, there are immaterial leases in place for vehicles and other office equipment. Before the adoption of IFRS 16, under IAS 17, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. At the point of transition to IFRS 16, the Company did not hold any leases which it had previously classified as finance leases, all leases were classified as operating leases, refer to note 2 for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except the short-term leases and leases of low-value assets.

Leases previously classified as operating leases

The Company recognised right of use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low value assets. The right of use assets for leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowings rates as at the date of initial application, being 1 January 2019.

Lease liabilities were recognised based on the present value of the remaining lease payments, discounted applying the incremental borrowing rate at the date of initial application, the Company's weighted average IBR was 4.6%. The range applied across leases was between 1.9% and 4.9%.

Notes to the Company accounts continued

for the year ended 31 December 2019

1 Accounting policies continued

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitments as at 31 December 2018	15.7
Less:	
Commitments relating to short-term leases	–
Commitments relating to leases of low value assets	–
Adjusted operating lease commitments as at 31 December 2018	15.7
Impact of applying the incremental borrowing rate (see below)	(2.7)
Lease liabilities as at 1 January 2019	13.0
Weighted average incremental borrowing rate as at 1 January 2019	4.6%

IFRIC 23

The Group has reviewed the provisions of IFRIC 23 Uncertainty over Tax Treatments and has not identified any impact from the new standard.

Other amendments

The following amendments, which were effective for the first time in the current year but had no impact on the results or financial position of the Group:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures
- Annual Improvements to IFRSs (2015-2017 Cycle)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement.

Fixed assets and depreciation

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

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

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Leasehold improvements	The lower of 10 years or the lease term straight line
Computer equipment	4-5 years straight line
Fixtures and fittings	20% reducing balance
Motor vehicles	20% reducing balance

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

Foreign currencies

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

Financial instruments

The Company considers the use of forward foreign currency contracts and interest rate swaps to reduce exposure to foreign exchange and interest rates. Where such instruments are taken out, they are stated at fair value. Gains and losses arising from changes in fair value are taken to the profit and loss account in the period.

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

1 Accounting policies continued

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.

Pension cost

The Company contributes to a Group personal pension scheme for qualifying employees whereby it makes defined contributions to independently administered personal pension schemes. The Company does not control any of the assets or have any ongoing liabilities with regard to the performance of and payments from these individual personal schemes. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Research and development

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised when its future recoverability can reasonably be regarded as assured and technical feasibility and commercial viability can be demonstrated. Where these criteria are not met the expenditure is expensed to the income statement.

IFRS 15

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.

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

Notes to the Company accounts continued

for the year ended 31 December 2019

1 Accounting policies continued

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.

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' on page 122, 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).

1 Accounting policies continued

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and management believe it to be probable that the Company will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to net present value where this is deemed to be material.

Share-based payments

Employees (including Directors) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

Equity-settled transactions

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

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

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

Prior year restatement

The 2018 comparative balance sheet has been restated to reclassify intercompany loans of £75.4m from amounts falling due within one year as greater than one year reflecting the loan agreement in place.

There is no impact on the net asset position of the Company, and no adjustment made to profit attributable to the Company.

Significant critical accounting judgements, estimates and assumptions

Revenue – licence technology revenue

Technology revenue includes licenced software and related services. Where software is sold as a licence, revenue is typically recognised on delivery. Support and maintenance and other services generally form part of the contract and the revenue is recognised as the services are performed. In these cases often significant judgement is required in allocating the consideration receivable to each performance regulation. This judgement could materially affect the timing and quantum of revenue and profit recognised in each period. Licence revenue in the year amounted to £9.0m in 2019 (2018: £6.5m).

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.

Notes to the Company accounts continued

for the year ended 31 December 2019

2 Tangible fixed assets

	Leasehold improvements £m	Computer equipment £m	Fixtures and fittings £m	Total £m
Cost				
At 1 January 2019	2.7	3.3	0.4	6.4
Impact of transition to IFRS 16	(0.6)	–	–	(0.6)
Additions	–	1.4	–	1.4
Disposal	–	(0.1)	–	(0.1)
At 31 December 2019	2.1	4.6	0.4	7.1
Depreciation				
At 1 January 2019	(0.4)	(1.6)	(0.1)	(2.1)
Impact of transition to IFRS 16	0.1	–	–	0.1
Provided during the year	(0.3)	(0.9)	(0.1)	(1.3)
Disposal	–	0.1	–	0.1
At 31 December 2019	(0.6)	(2.4)	(0.2)	(3.2)
Net book value				
At 31 December 2019	1.5	2.2	0.2	3.9
At 31 December 2018	2.3	1.7	0.3	4.3

3 Intangible fixed assets

	Research and development £m	Software development £m	Total £m
Cost			
At 1 January 2019	2.4	11.3	13.7
Additions	2.2	2.6	4.8
Transfers	–	–	–
At 31 December 2019	4.6	13.9	18.5
Amortisation			
At 1 January 2019	(0.4)	(0.9)	(1.3)
Provided during the year	(1.0)	(1.3)	(2.3)
Disposals	–	–	–
At 31 December 2019	(1.4)	(2.2)	(3.6)
Net book value			
At 31 December 2019	3.2	11.7	14.9
At 31 December 2018	2.0	10.4	12.4

4 Investment in subsidiaries

Details of the investments in which the Company holds more than 20% of the nominal value of ordinary share capital are given in note 14 of the Group financial statements.

	£m
At 1 January 2019	224.9
Increase in investments	1.5
At 31 December 2019	226.4

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

5 Debtors

	2019 £m	2018 £m
Debtors: amounts falling due within one year		
Trade debtors	8.7	8.8
Amounts owed by Group undertakings (including £68.3m falling due after more than one year, 2018: £70.9m)	215.4	155.2
Corporation tax	0.3	0.5
Deferred tax asset due in less than one year	–	0.3
Prepayments and other receivables	5.8	5.8
Accrued income	1.1	1.9
Rent and other deposits	0.2	0.1
	231.5	172.6

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 2019 £m	Unrecognised 2019 £m	Recognised 2018 £m	Unrecognised 2018 £m
Depreciation in advance of capital allowances	–	–	–	–
Other short-term temporary differences	0.4	–	–	–
Share-based payments	0.4	–	0.3	–
Tax losses	0.4	–	–	–
Net deferred tax asset	1.2	–	0.3	–

	2019 £m	2018 £m
Reconciliation of movement on deferred tax asset		
At 1 January	0.3	5.5
Adjustment on initial adoption of IFRS 16	0.3	–
At 1 January (adjusted)	0.6	5.5
Temporary differences arising in the period (see note 9, Group accounts)	0.2	(5.2)
Recognition of previously unrecognised losses	0.4	–
Deferred tax asset at 31 December	1.2	0.3

Additional details on the deferred tax position of the Group can be found in note 9 of the Group's financial statements.

Notes to the Company accounts continued

for the year ended 31 December 2019

6 Creditors

	2019 £m	Restated 2018 £m
Creditors: amounts falling due within one year		
Trade creditors	3.5	3.6
Amounts owed to Group undertakings	172.1	118.7
Corporation tax	–	2.3
Other taxes and social security costs	0.8	0.7
Other creditors	1.1	0.6
Accruals	10.4	12.4
Deferred income	5.9	5.8
	193.8	144.1

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 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%.

7 Interest bearing loans and borrowings

For details of the Group's borrowings please see note 18 of the Group financial statements. The facility discussed in note 18 of the Group's financial statements is held by the Parent Company.

8 Creditors

	2019 £m	Restated 2018 £m
Creditors: amounts falling due after more than one year		
Deferred income	0.3	0.3
Amounts owed to Group undertakings	88.8	75.4
Corporation tax	2.8	–
Total	91.9	75.7

9 Provisions for liabilities and charges

	2019 £m	2018 £m
Property leases	0.8	0.8
Tax related provisions	1.5	–

Movement in provisions:

	Provision 1 January 2019 £m	Arising during the year £m	Released during the year £m	Utilised during the year £m	Provision 31 December 2019 £m
Property leases	0.8	–	–	–	0.8
Tax related provisions	–	1.5	–	–	1.5

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, 2018: £0.2m) and greater than five years (£0.6m, 2018: £0.6m). Amounts provided are management's best estimate of the likely future cash outflows. The provision has been discounted using market interest rates.

9 Provisions for liabilities and charges 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.

10 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
At 1 January 2019 (restated)	11.6
Additions	1.7
Depreciation expense	(1.4)
Re-measurement adjustments	0.5
Currency adjustment	—
At 31 December 2019	12.4

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

	2019 £m	2018 £m
As at 1 January	13.0	—
Additions	1.7	—
Accretion of interest	0.6	—
Re-measurement adjustments	0.5	—
Repayments	(1.8)	—
Currency adjustment	0.1	—
At 31 December	14.1	—
Current	2.3	—
Non current	11.8	—

A full maturity analysis of the Group's lease liabilities is disclosed in the Group accounts in note 25.

The following are the amounts recognised in profit or loss as a charge / (credit):

	2019 £m	2018 £m
Depreciation expense of right-of-use assets	1.4	—
Interest expense on lease liabilities	0.6	—
Expense relating to short term leases (included in administrative expenses)	—	—
Expense relating to leases of low value assets (included in administrative expenses)	—	—
Total amount recognised in profit or loss	2.0	—

The Company had total cash outflows for leases of £1.8m in 2019. The Company had no non-cash additions to right-of-use assets and lease liabilities in 2019. 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 22 to the Group's accounts.

Notes to the Company accounts continued for the year ended 31 December 2019

11 Share capital and dividends

Details of the share capital of the Parent Company can be found in note 20 of the Group's financial statements.

Details of the dividend payments within the year can be found in note 10 of the Group's financial statements.

12 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 23 of the Group's financial statements. SDL plc is the ultimate controlling party of the wider group and no one individual has overall control of SDL plc.

13 Commitments and contingencies

As per note 14, SDL plc has taken the audit exemption for a number of subsidiaries by virtue of s479A of the Companies Act. A Parent Company guarantee has been provided for these entities under s479C of the Companies Act.

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 18 of the Group's financial statements.

14 Share-based payment plans

During 2019, the total share-based payment charge amounted to £1.3m (2018: £1.9m). 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 21 of the Group financial statements. All share-based payments are equity settled by the Parent Company.

15 Profit attributable to members of the Parent Company

The profit dealt with in the financial statements of the Parent Company is £4.9m (2018: loss of £3.2m). No profit and loss account is presented for the Company as permitted by s408 of the Companies Act 2006.

16 Post balance sheet events

In early 2020, the existence of a new coronavirus (COVID-19) was confirmed which has since spread across a significant number of countries, leading to disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event and given the inherent uncertainties, it is not practicable at this time to determine the exact impact of COVID-19 on the Group or to provide a quantitative estimate of the impact.

As a result of COVID-19, the Group drew down £63m on its revolving credit facility to manage liquidity. Details of the Group's borrowing facilities are provided in note 18.

Alternative Performance Measures (APMs)

The Group presents various APMs as the Directors believe that these are useful for the users of the financial statements in helping to provide a balanced view of, and relevant information on, the Groups financial performance.

Measure / description

Why we use it

<p>Adjusted</p> <p>Adjusted measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:</p> <ul style="list-style-type: none"> – Amortisation of acquired intangible assets; – Exceptional items that in management's judgement should be disclosed separately (see note 7) by virtue of their size, nature or incidence. 	<p>Adjusted measures allow management and investors to compare performance without exceptional items or non-operational items.</p>
<p>Constant currency</p> <p>Prior period underlying measures, including revenue are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.</p>	<p>Constant currency measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements.</p>
<p>Pro forma</p> <p>In addition to the adjustments made for adjusted measures, pro forma measures assume a full year of results from acquired businesses during the period.</p>	<p>Pro forma measures allow management and investors to understand the like-for-like revenue and current period margin performance of the business.</p>
<p>Adjusted operating profit</p> <p>Defined as operating profit excluding exceptional items and amortisation of acquired intangibles.</p> <p>A reconciliation of adjusted profit to operating profit on the consolidated statement of profit or loss.</p>	<p>As a measure of operating profit excluding major non-cash items.</p>
<p>Adjusted EPS</p> <p>The adjusted EPS is EPS adjusted for the impact, exceptional items, the impact of amortisation on acquired intangibles and the impact of exceptional tax charges or credits.</p> <p>A reconciliation of adjusted EPS to EPS is provided on note 11.</p>	<p>The adjusted EPS measure allows management and investors to compare performance without the distorting effects arising from significant acquisitions (for example the effects of amortisation of acquired intangibles), disposals and the impact of exceptional tax charges or credits.</p>
<p>Annual Recurring Contract Value (ARCV)</p> <p>Annual Recurring Contract Value (ARCV) is the amount of revenue recognised in the last month of the reporting period, annualised and generated from technology related subscription contracts (SaaS, hosting and support and maintenance) and term contracts.</p>	<p>As a measure of new recurring bookings that can be compared across different contract durations (monthly, annual, multi-year) and types (maintenance and subscription).</p>
<p>Language Services Repeat Revenue Rate (RRR)</p> <p>Current year Language Services revenue earned from prior year customers as a percentage of the prior year Language Services revenue; the difference between this measure and total revenue for Language Services is revenue from new customers.</p>	<p>As a measure of the level of repeat business with existing customers.</p>

Five year Group summary

for the year ended 31 December 2019

	IFRS 2019 £m	IFRS 2018 £m	IFRS 2017 £m	IFRS 2016 £m	IFRS 2015 £m
Turnover	376.3	323.3	289.2	289.9	266.9
Continuing turnover	376.3	323.3	287.2	264.7	240.5
Growth in continuing revenue	16.5%	13%	9%	10%	n/a
Operating profit before tax, exceptional items and amortisation	37.2	29.0	19.0	23.5	20.7
Continuing operating profit before tax, exceptional items and amortisation	37.2	29.0	24.0	27.0	24.3
Operating profit / (loss)	29.7	18.9	17.0	5.2	(25.1)
Profit / (loss) before tax	27.0	18.4	29.9	(15.8)	(25.2)
Profit / (loss) after tax	19.6	14.8	28.5	(18.1)	(30.7)
Non current assets	269.0	244.1	175.6	167.6	177.0
Cash and cash equivalents	26.3	19.8	22.7	21.3	17.2
Current assets less current liabilities	27.2	19.6	17.5	5.9	(0.6)
Total assets less current liabilities	296.2	263.7	193.1	173.5	176.4
Equity interests	252.5	245.6	189.1	168.7	166.9
Average number of employees (thousand)	4.2	3.8	3.6	3.6	3.5
Earnings per share – basic	21.6p	17.2p	36.8p	(22.3)p	(37.9)p

The Group transitioned to IFRS 16 effective 1 January 2019, the comparatives included in the five year Group summary above have not been restated for the effects of IFRS 16.

The Group transitioned to IFRS 15 effective 1 January 2017. The comparative included in the five year Group summary above have not been restated for the effects of IFRS 15 in 2015 or 2016.

The five year Group summary above does not form part of the audited financial statements.

Company information

Financial calendar

Annual General Meeting

26 May 2020

Results announcements

Interim results – period ending 30 June 2020

6 August 2020

Final results – year ending 31 December 2020

TBC March 2021

Stay up to date at www.sdl.com

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Investor enquiries

Enquiries can be directed via our website – follow the 'Contact us' link.



A high-white premium recycled range, made from a minimum of 50% recycled fibres, Digigreen has FSC® Mix Credit certification, European Ecolabel accreditation and the NAPM 50% label rating



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