

Registered number: 2034398

SDL Sheffield Limited

Annual Report and Financial Statements

31 December 2018



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2018

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SDL Sheffield Limited

Registered No. 2034398

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

Robert Cant
SDL Plc

AUDITOR

KPMG LLP
Arlington Business Park
Theale
Reading
RG7 4SD

BANKERS

HSBC Bank PLC
Apex Plaza
Reading
RG1 1AX

SOLICITORS

DLA Piper UK LLP
160 Aldersgate Street
Barbican
London
EC1A 4HT

REGISTERED OFFICE

New Globe House
Vanwall Business Park
Vanwall Road
Maidenhead
Berkshire
SL6 4UB

STRATEGIC REPORT

REVIEW OF THE BUSINESS

The company is a wholly owned subsidiary of SDL Plc and operates as part of the group's Language Services division. Revenue is generated by both language services translation to external customers as well as intragroup transactions as a network office providing translation services to other companies within the group

In 2018, revenues grew by 14% over the prior year following the acquisition of Donnelley Language Solutions ('DLS'), a provider of Language Service solutions in July 2018. The acquisition strengthened the Group's position within the higher value premium content markets. As part of the acquisition, the company acquired the UK trade and assets of DLS' UK business.

The Company acquired DLS for a cash consideration of £4,301,387 plus fees of £245,688 on legal and due diligence services. Details of the costs incurred by the company are set out in note 14.

SDL Plc continues to invest in research and development activities. These activities have resulted in a number of updates to existing products and the deployment of these products enhances operational effectiveness of the Company's activities. The directors regard continued research and development investment by the Group as necessary for the continuing success of the Company in the medium to long term future.

The balance sheet on page 11 of the financial statements shows that the company's net current assets have reduced to £1,682,236 from prior year of £3,143,168. However, overall net assets have increased to £9,233,649 from £4,335,148 in the prior year following the acquisition of DLS. The company moved into new premises during the year and fit out costs have been capitalised in the year. Debtor balances rose at the year-end due to increased new and existing customer activity in the run up to the year end driven by the acquisition. This increased working capital was funded by intercompany transfers by the Group.

KEY PERFORMANCE INDICATORS

The director considers the key performance indicators of the Company to be revenue generation and gross margin.

As shown in the company's profit and loss account on page 10, the company's revenue has increased by £4,209,241 over the previous year. The acquisition of DLS increased revenue by £6,948,376 in 2018. Revenue excluding DLS decreased by £2,739,136, in language services projects.

Gross profit for the year of £10,549,923 (2017: £5,825,804) increased due to the improved margins in the acquired DLS business.

The profit for the year, before taxation, amounted to £533,141 (2017 profit: £532,063). Movement in net foreign exchange gains of £1,217,341 (2017: loss of 1,007,407) is as a result of foreign exchange balances on receivables from group undertakings.

The Group manages its operations on a functional basis. For this reason, the Company's directors believe that the company's key performance indicators are in line with those of the broader Group. The performance of the Language Services division, which includes the Company, is discussed in the Group's Annual Report which does not form part of this Report.

STRATEGIC REPORT

BUSINESS RISKS

Competitive pressure is a continuing risk for the company, which could result in it losing sales to its key competitors. The company manages this risk by providing added value services to its customers, having fast response times not only in supplying services but in handling all customer queries, and by maintaining strong relationships with customers. The Company and Group manage its cost base to ensure that competitive pricing can be provided to its customer base.

The company's sales outside the UK are made in currencies other than sterling and it is therefore exposed to the foreign currency fluctuations. The Group does not hedge foreign currency profit and loss translation exposures and the statutory results are therefore impacted by movements in exchange rates. Foreign exchange receipts and payments are managed by the Group Treasury function

The company is financed by its own cash receipts and group funding and has no third party debt. It therefore has no direct interest rate exposure.

The Group risks are discussed in the group's Annual Report which does not form part of this Report. This annual report can be found at www.sdl.com.

FUTURE DEVELOPMENTS

The Company expects to continue developing its Language Services operations as part of the broader Group.

SUBSEQUENT EVENTS

There have been no events since the balance sheet date.

By order of the Board



Robert Cant
Director
9th December 2019

SDL Sheffield Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £533,141 (2017: £532,063). The directors do not recommend a payment of a dividend for 2018 (2017: £nil).

PRINCIPAL ACTIVITIES

The company's principal activities are the development and sale of Language Services. There have been no significant changes in the company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year and up to the date of this report were as follows:

SDL Plc

Chris Coker (Resigned 29 August 2019)

Robert Cant (Appointed 29 August 2019)

During the year, and up to the date of approval of the financial statements, the company had in place third party indemnity provision for the benefit of all the directors of the company.

SDL plc indirectly owns 100% of the share capital of the company.

Directors' interests in long term incentive plan shares of SDL plc were:

	Exercisable	At 31 December 2018 Number	At 31 December 2017 Number
Chris Coker	08/06/2019-08/06/2026	15,036	15,036
	18/04/2020-18/04/2027	11,190	11,190
	16/04/2021-16/04/2028	17,456	-
Robert Cant	17/04/2016-17/04/2022	4,223	4,223

Directors' interests in SDL Share Option Scheme of SDL Plc were:

	Exercisable	2018 No.	2018 Exercise Price	2017 No.	2017 Exercise Price
Chris Coker	17/04/2018- 17/04/2025	-	-	10,000	444.75p

DIRECTORS' REPORT

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

So far as the directors are aware, there is no relevant audit information (that is, information needed by the company's auditor in connection with preparing their report) of which the company's auditor is unaware.

The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 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, through funding from its ultimate parent company, SDL Plc, to meet its liabilities as they fall due for that period.

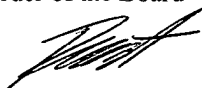
Those forecasts are dependent on SDL Plc providing additional financial support during that period. SDL Plc has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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.

AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



Robert Cant
Director
9th December 2019

Company registration number: 2034398

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of SDL Sheffield Limited ("the company") for the year ended 31 December 2018 which comprise the Profit and Loss Account and Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of goodwill and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company'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 its 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

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

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 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.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for 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 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 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 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 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.

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

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

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

Simon Haydn Jones for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants Arlington Business Park

Theale, Reading

RG7 4SD

SDL Sheffield Limited

PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME for the year ended 31 December 2018

	Notes	2018 £	2017 £
TURNOVER	2	33,827,647	29,618,406
Cost of Sales		(23,277,724)	(23,792,602)
GROSS PROFIT		10,549,923	5,825,804
Administrative expenses		(9,841,934)	(5,155,855)
OPERATING PROFIT	3	707,989	669,949
PROFIT BEFORE TAXATION		707,989	669,949
Tax charge on profit	6	(174,848)	(137,886)
PROFIT FOR THE FINANCIAL YEAR		533,141	532,063
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		533,141	532,063

The notes on pages 13 to 25 form an integral part of these financial statements

SDL Sheffield Limited

BALANCE SHEET at 31 December 2018

	Notes	2018 £	2017 £
FIXED ASSETS			
Tangible assets	7	1,081,017	1,172,404
Intangible assets	8	7,681,181	19,576
		8,762,198	1,191,980
CURRENT ASSETS			
Debtors	9	10,862,053	14,152,675
Cash at bank and in hand		212,350	112,500
		11,074,403	14,265,175
CREDITORS:			
Amounts fallings due within one year	10	(9,302,707)	(11,122,007)
		1,771,696	3,143,168
NET CURRENT ASSETS			
		10,533,894	4,335,148
TOTAL ASSETS LESS CURRENT LIABILITIES			
CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR			
Deferred tax liability	11	(1,300,245)	-
		9,233,649	4,335,148
NET ASSETS			
CAPITAL AND RESERVES			
Called up share capital	12	130	130
Share premium account		10	10
Capital contribution reserve	14	4,365,360	-
Profit and loss account		4,868,149	4,335,008
TOTAL SHAREHOLDERS' FUNDS		9,233,649	4,335,148

The notes on pages 13 to 25 form an integral part of these financial statements

Approved by the board of directors on 9th December 2019



Robert Cant
Director

Company registration number: 2034398

SDL Sheffield Limited

STATEMENT OF CHANGES IN EQUITY at 31 December 2018

	Called up share capital	Share premium account	Capital contribution reserve	Profit & loss account	Total equity
	£	£	£	£	£
Balance at 1 January 2017	130	10	-	3,802,945	3,803,085
Total comprehensive income for the year	-	-	-	532,063	532,063
Balance at 31 December 2017	130	10	-	4,335,008	4,335,148
Balance at 1 January 2018	130	10	-	4,335,008	4,335,148
Capital contribution in the year	-	-	4,365,360	-	4,365,360
Total comprehensive income for the year	-	-	-	533,141	533,141
Balance at 31 December 2018	130	10	4,365,360	4,868,149	9,233,649

The notes on pages 13 to 27 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2018

1. ACCOUNTING POLICIES

SDL Sheffield Limited is a company incorporated, domiciled and registered in the UK.

Basis of preparation

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 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.

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

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and non-current tangible and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- Disclosures in respect of the compensation of Key Management Personnel.

The Company's ultimate parent undertaking, SDL plc, includes the Company in its consolidated financial statements. The consolidated financial statements of SDL plc are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from the Company Secretary's office, New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead, SL6 4UB.

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

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- The disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 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, through funding from its ultimate parent company, SDL Plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on SDL Plc providing additional financial support during that period. SDL Plc has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2018

1. ACCOUNTING POLICIES (continued)

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.

New standards, amendments and IFRIC interpretations

IFRS 15 is a new accounting standard that is effective for the period ended 31 December 2018 and has had no material impact on adoption. IFRS 9 is a new accounting standard that is effective for the period ended 31 December 2018 and has had no material impact on adoption. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2018 that have a material impact on the Company.

IFRS 16 Leases

The Company is required to adopt IFRS 16 Leases from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i. Leases in which the Company is a lessee

The Company will recognise new assets and liabilities for its property and other operating leases (see note 3). The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability.

The Company does not expect the adoption of IFRS 16 to impact its ability to comply with its loan covenants.

ii. Leases in which the Company is a lessor

The Company will reassess the classification of sub-leases in which the Company is a lessor. Based on the information currently available, the Company expects that it will reclassify sub-leases as finance leases, resulting in recognition of a finance lease receivable. No significant impact is expected for other leases in which the Company is a lessor.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2018

1. ACCOUNTING POLICIES (continued)

iii. Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC.

Turnover recognition

The Company provides a single, principles based five step model to be applied to all sales contracts as outlined below. It is based on the transfer of control of goods and services to customers and replaces the separate models for goods and services.

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when or as the entity satisfies its performance obligations.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

Revenue on service contracts is recognised only when their outcomes can be foreseen with reasonable certainty and is based on the percentage stage of completion of the contracts, calculated on the basis of costs incurred. Accrued and deferred revenue arising on contracts is included in trade receivables as accrued income and in trade and other payables as deferred income as appropriate.

The Group's language services contracts provide for the Company to be reimbursed for work as it is undertaken. Accordingly the Group recognises revenue over time, on a percentage of completion basis.

Foreign currency translation

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the profit and loss account.

Taxation

The tax credit / (charge) represents the net sum of tax received and receivable and deferred tax movements. The taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2018

1. ACCOUNTING POLICIES (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets will be reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Tangible fixed assets

Tangible fixed assets are held at cost less accumulated depreciation and any impairment in value.

Depreciation is provided to write off the cost less the estimated residual value based on prices at the balance sheet date of property, plant and equipment over their estimated useful economic lives as follows:

- Computer and office equipment are depreciated over 2 to 3 years according to the estimated life of the asset; and
- Fixtures and fittings are depreciated over 4 to 7 years according to the estimated life of the asset.
- Leasehold improvements are depreciated at the lower of 10 years or the lease term straight line.

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

Intangible assets

Computer software

Computer software licences and other intellectual property assets acquired are held at cost and are amortised on a straight line basis over their estimated useful lives of 2 to 6 years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2018

1. ACCOUNTING POLICIES (continued)

Intangible assets arising on acquisition

Customer relationships amortised on a straight line basis over their estimated useful life of between 5 and 15 years.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the recoverable amount is less than the carrying value of an asset an impairment charge is made.

Business Combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. 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 Company'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.

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured and technical feasibility and commercial viability can be demonstrated.

Financial instruments

Short-term trade and other debtors and trade and other creditors are treated as financial assets or liabilities.

Trade and other debtors

Trade and other debtors are recognised initially at fair value and are provided for where management consider an element of the balance to be irrecoverable.

Trade and other 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.

Cash at bank and in hand

Cash at bank and in hand includes cash in hand and deposits held at call with banks.

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2018

1. ACCOUNTING POLICIES (continued)

Employee benefits

Pension obligations

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The company has no legal or constructive obligations to pay further contributions to the fund. The cost of providing these benefits, recognised in the profit and loss account, comprises the amount of contributions payable to the schemes in respect of the year.

In addition to the scheme some UK employees receive an enhancement to salary of between 5% and 10% of gross pay in lieu of company contributions.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or

to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Leases

Operating leases

Leases in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease. Lease incentives received are recognized in the profit and loss account as an integral part of the total lease expense.

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholder's funds) 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.

SDL Sheffield Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 December 2018

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholder's funds, are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

2. TURNOVER

Turnover represents the amount invoiced excluding value added tax, derived from the provision of localisation services to third party customers, except in respect of long-term contracts where turnover represents the value of work carried out during the year, including amounts not invoiced and excluding amounts invoiced in advance. Turnover by geographical destination was as follows:

	2018	2017
	£	£
United Kingdom	25,113,086	20,276,376
Rest of Europe	5,307,755	4,556,174
North America	2,178,779	4,011,132
Rest of the World	1,228,027	774,724
	<u>33,827,647</u>	<u>29,618,406</u>

An analysis of the company's revenue is as follows:

	2018	2017
	£	£
Software support and maintenance	77,983	28,245
Consultancy and services	33,749,664	29,590,161
	<u>33,827,647</u>	<u>29,618,406</u>

Included in the total company revenue is intragroup revenue of £5,278,875 (2017: £3,893,291) as a result of providing language services translation services to other companies in the group.

3. OPERATING PROFIT

This is stated after charging / (crediting)

	2018	2017
	£	£
Depreciation and amortisation of owned assets	443,542	129,248
Operating lease for land and buildings	469,604	298,183
Net foreign exchange (gains)/losses	(1,217,341)	1,007,407

4. AUDITOR'S REMUNERATION

	2018	2017
	£	£
Audit of the financial statements	<u>17,000</u>	<u>9,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

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5. STAFF COSTS

Staff costs were as follows:

	2018	2017
	£	£
Wages and salaries	9,074,052	5,787,883
Social security costs	748,160	597,422
Other pension costs	359,428	291,986
	<u>10,181,640</u>	<u>6,677,291</u>

The company operates a personal pension scheme for qualifying employees. The pension cost charge for the period represents contributions payable to the scheme and amounted to £359,428 (2017: £291,986).

The average monthly number of employees during the period was made up as follows:

	2018	2017
	Number	Number
Administration and sales	82	69
Production	112	100
	<u>194</u>	<u>169</u>

Directors' emoluments

The directors of the company are also directors or employees of SDL Plc. The directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they received any remuneration for their incidental services to the company for the years ended 31 December 2018 and 31 December 2017.

6. TAXATION

(a) Tax on profit

	2018	2017
	£	£
Current taxation:		
UK Corporation Tax	157,829	-
Group Relief	30,832	99,417
Adjustments in respect of prior periods	3,569	-
	<u>192,230</u>	<u>99,417</u>
Deferred taxation:		
Originating and reversal of timing differences	(17,382)	34,980
Effect of tax rate change on opening balance	-	3,489
	<u>(17,382)</u>	<u>38,469</u>
Total taxation charge	<u>174,848</u>	<u>137,886</u>

(b) Factors affecting tax charge:

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2018

6. TAXATION (CONTINUED)

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	<i>2018</i>	<i>2017</i>
	£	£
Profit before tax	707,985	669,949
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	134,517	128,943
Effect of:		
Expenses not deductible for tax purposes	44,904	-
Income not deductible for tax purposes	-	2,539
Non-taxable income	-	(1)
Adjustments to tax charge in respect of previous periods	3,569	-
Depreciation in excess of capital allowances	4,233	(19,396)
Other timing differences	(12,375)	22,312
Effect of tax rate change on opening balance	-	3,489
Group relief claimed	(30,832)	(99,417)
Payment for group relief	30,832	99,417
Tax charge for the period	174,848	137,886

Factors affecting future tax charges:

In the UK, a reduction in the corporate tax rate from 19% to 17% from April 2020 was enacted on 6 September 2016.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2018

7. TANGIBLE FIXED ASSETS

	<i>Leasehold property</i>	<i>Computer equipment</i>	<i>Fixtures & fittings</i>	<i>Total</i>
	£	£	£	£
<i>Cost</i>				
At 1 January 2018	736,879	503,398	312,316	1,552,593
Additions	113,096	6,523	-	223,361
Acquisitions through business combinations	-	-	103,742	-
Disposal	-	(7,296)	(103,742)	(111,038)
At 31 December 2018	849,975	502,625	312,316	1,664,916
<i>Depreciation</i>				
At 1 January 2018	29,804	324,903	25,482	380,189
Charged in the year	88,899	64,741	57,366	211,006
Disposals in the year	-	(7,296)	-	(7,296)
At 31 December 2018	118,703	382,348	82,848	583,899
<i>Net book value</i>				
At 31 December 2018	731,272	120,277	229,468	1,081,017
At 31 December 2017	707,075	178,495	286,834	1,172,404

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2018

8. INTANGIBLE FIXED ASSETS

	<i>Goodwill</i>	<i>Customer relationships</i>	<i>Software</i>	<i>Total</i>
	£		£	£
<i>Cost</i>				
At 1 January 2018	-	-	124,780	124,780
Additions	-	7,893,562	579	7,894,141
At 31 December 2018	-	7,893,562	125,359	8,018,921
<i>Amortisation</i>				
At 1 January 2018	-	-	105,204	105,204
Charged in the year	-	219,266	13,270	232,536
At 31 December 2018	-	219,266	118,474	337,740
<i>Net book value</i>				
At 31 December 2018	-	7,674,296	6,885	7,681,181
At 31 December 2017	-	-	19,576	19,576

9. DEBTORS

	<i>2018</i>	<i>2017</i>
	£	£
Trade debtors	8,340,350	7,259,604
Prepayments	220,295	67,629
Accrued income	1,375,538	1,810,428
Amounts owed by group companies	584,862	4,964,855
Other debtors	325,078	-
Deferred tax asset (note 11)	15,930	40,208
Withholding tax	-	9,951
	10,862,053	14,152,675

All amounts owed by group companies are interest free, unsecured and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2018

10. **CREDITORS:** amounts falling due within one year

	<i>2018</i>	<i>2017</i>
	£	£
Trade creditors	2,021,518	528,098
Amounts owed to group undertakings	261,754	7,077,688
Other taxes and social security costs	1,338,685	1,173,025
Other creditors	189,715	385,863
Accruals	4,225,936	815,099
Deferred income	184,606	253,970
Corporation tax	1,080,493	888,263
	<u>9,302,707</u>	<u>11,122,006</u>

Outstanding amounts in respect of the defined contribution scheme payable at the balance sheet date were £71,224 (2017: £44,872). All amounts owed to group undertakings are interest free, unsecured and repayable on demand.

11. **DEFERRED TAXATION**

The amounts provided and not provided for deferred taxation are set out below:

	<i>Provided</i>	<i>Unprovided</i>	<i>Provided</i>	<i>Unprovided</i>
	<i>2018</i>	<i>2018</i>	<i>2017</i>	<i>2017</i>
	£	£	£	£
Depreciation in excess of capital allowances	2,397	-	31,683	-
Other short term timing differences	13,533	-	8,525	-
Deferred tax asset	<u>15,930</u>	<u>-</u>	<u>40,208</u>	<u>-</u>

	<i>Provided</i>	<i>Unprovided</i>	<i>Provided</i>	<i>Unprovided</i>
	<i>2018</i>	<i>2018</i>	<i>2017</i>	<i>2017</i>
	£	£	£	£
Deferred tax on intangible assets	1,300,245	-	-	-
Deferred tax liability	<u>1,300,245</u>	<u>-</u>	<u>-</u>	<u>-</u>

The movement on the deferred tax asset for the year was as follows:

	<i>2018</i>	<i>2017</i>
	£	£
At 1 January	40,208	78,677
Recognised tax credit for the year	<u>(24,278)</u>	<u>(38,469)</u>
At 31 December	<u>15,930</u>	<u>40,208</u>

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2018

11. DEFERRED TAXATION (CONTINUED)

The movement on the deferred tax liability for the year was as follows:

	<i>2018</i>	<i>2017</i>
	£	£
At 1 January	-	-
Deferred tax liability on acquisition	(1,341,905)	-
Recognised tax for the year	41,660	-
At 31 December	1,300,245	-

12. SHARE CAPITAL

	<i>2018</i>	<i>2017</i>
	£	£
Allotted, called up and fully paid		
100 Ordinary Shares of £1 each	100	100
10 Ordinary "A" non-voting redeemable shares of £1 each	10	10
10 Ordinary "B" non-voting redeemable shares of £1 each	10	10
10 Ordinary "C" non-voting redeemable shares of £1 each	10	10
	130	130

All "A", "B" and "C" redeemable ordinary shares carry the following rights and restrictions: no right to vote at any meeting of the company; a right to a dividend subject to the discretion of the company in General Meeting; holders must be employees of the company and shares must be sold back to the company at par in the event of cessation of employment or death; shares are non-transferable; shares can be redeemed at par at the behest of the holders of 30% of the ordinary shares of the company; in the event of a winding-up of the company the shares will not participate in the assets of the company except to the extent of par value.

In the event of a winding-up of the company, repayment of "A" shares shall rank ahead of "B" shares, "B" shares shall rank ahead of "C" shares, and "C" shares shall rank ahead of Ordinary Shares.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2018

13. OPERATING LEASES

Non-cancellable operating leases are payable as follows:

	<i>Land & Buildings</i>	<i>Land & Buildings</i>
	<i>2018</i>	<i>2017</i>
	<i>£</i>	<i>£</i>
Less than one year	332,300	267,840
Between one and five years	1,374,649	1,071,360
More than five years	1,577,231	1,674,000
	<u>3,284,180</u>	<u>3,013,200</u>

The company leases its current business premises under an operating lease arrangement.

During the year £469,604 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £298,183).

14. ACQUISITION OF DONNELLEY LANGUAGE SOLUTIONS

On 23 July 2018, the Company acquired trade and assets from Donnelley Language Solutions (DLS) business for cash consideration of £4,301,387. The acquisition was funded by group cash resources.

As a result of the group acquisition of DLS, the Company acquired assets and liabilities at a fair value in excess of the cash consideration made. As part of the group purchase, this is considered as a capital contribution from the Group in the Company accounts.

Acquisition-related costs

The Company incurred acquisition-related costs of £245,688 on legal fees and due diligence costs. These costs have been included within 'administrative expenses'

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS
at 31 December 2018

14. ACQUISITION OF DONNELLEY LANGUAGE SOLUTIONS (CONTINUED)

Fair value of identifiable net assets acquired	£
Intangible assets – customer relationships	7,893,562
Fixed assets	103,741
Trade and other receivables	3,008,423
Cash and cash equivalents	-
Trade and other payables	(997,074)
Deferred tax	(1,341,905)
Total consideration	8,666,747
Satisfied by cash	4,301,387
Satisfied by capital contribution from the Group	4,365,360

Measurement of fair values

The fair value of DLS's intangible assets (customer relationships) has been measured by an independent valuer.

Accrued income assets relate to rights to consideration for work completed but not billed at the reporting date for language and professional services.

15. ULTIMATE PARENT COMPANY

The Company is a subsidiary undertaking of SDL Global Holdings Ltd. The ultimate controlling party is SDL Plc.

The largest group in which the results of the Company are consolidated is that headed by SDL Plc, incorporated in England, registered at New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead, SL6 4UB. The consolidated financial statements of the group are available to the public and may be obtained from New Globe House, Vanwall Business Park, Vanwall Road, Maidenhead, SL6 4UB.

16. SUBSEQUENT EVENTS

There have been no events since the balance sheet date.