6 August 2018

SDL plc

Half Year results for the six months ended 30 June 2018

Delivering our transformation

Unaudited Results Six months to 30 June	**2018**	2017 (restated[1])		
	Total £m	Continuing £m	Discontinued £m	Total £m
Revenue	**143.1**	139.2	2.0	141.2
Adjusted EBITA[2]	**12.0**	8.3	(3.1)	5.2
Profit before tax	**7.8**	6.0	14.9	20.9
Basic earnings per share	**6.8p**	4.8p	18.1p	22.9p
Adjusted diluted earnings per share[3]	**10.8p**	7.0p	(3.8p)	3.2p
Net cash	**22.5**			26.1
Free cash flow[4]	**10.5**			(1.5)
Free cash flow conversion[5]	**78%**			(16)%

Financial highlights from Continuing Operations

- Revenue up 2.8% to £143.1m (H1 17: £139.2m), constant currency revenue growth[6] of 6.0%
- Group Gross profit margin improved to 52.9% (H1 17: 50.5%)
- Adjusted EBITA grew 45% to £12.0m (H1 17: £8.3m), inclusive of £2.8m (net) capitalised research and development expenditure (H1 17: £nil)
- Profit before tax increased 30% to £7.8m (H1 17: £6.0m)
- Basic earnings per ordinary share up 42% to 6.8p (H1 17: 4.8p)
- Adjusted diluted earnings per share grew 54% to 10.8p (H1 17: 7.0p)

Operational highlights

- Good progress against our transformation plan and stated strategic objectives
- Sharpened focus on higher value premium services content has positioned the Group for H2 growth
- Helix programme showing ongoing momentum and delivering benefits – on track with business case
- Investment in new products delivering largest ever pre-sales orders for our updated product - Studio 2019 launched last month

Subsequent events

- The Group completed the acquisition of Donnelley Language Services for $77.5m on 22 July 2018. This acquisition gives SDL greater exposure to the premium growth verticals and creates significant opportunity for revenue and cost efficiencies. The acquisition is expected to be earnings accretive in 2019

Adolfo Hernandez, SDL Chief Executive, said:

> "I am pleased to report that SDL has had a good start to the year. Importantly, we have been able to balance underlying operational progress, on-boarding customers onto our Helix platform, the evolution of our go-to-market strategy and investment in innovation with good financial results showing revenue growth, gross margin expansion and cost discipline. I expect these initiatives to continue to bear fruit in the second half of 2018 and beyond. Furthermore, the acquisition of Donnelley Language Solutions accelerates parts of our premium services strategy and provides the opportunity to apply the same operational improvement initiatives to the acquired business over time. The outlook for the full year is in line with management expectations."

For further information please contact:

SDL plc Adolfo Hernandez, CEO Xenia Walters, CFO	**01628 410100**
FTI Consulting LLP Edward Bridges Darius Alexander Kwaku Aning	**0203 727 1000**

About SDL PLC

SDL (LSE: SDL) is the global leader in content creation, translation and delivery. For over 25 years we've helped companies communicate with confidence and deliver transformative business results by enabling powerful experiences that engage customers across multiple touchpoints worldwide. Are you in the know? Find out why 85 of the top 100 global companies work with and trust us on SDL.com. Follow us on Twitter, LinkedIn and Facebook.

[1] Prior year numbers have been restated to reflect the adoption of IFRS 15: Revenue from Contracts with Customers. Further details are provided in Note 11.
[2] Adjusted EBITA: Operating profit from Continuing Operations (H1 18: £7.8m, H1 17: £6.0m) before acquisition related amortisation (H1 18: £0.5m, H1 17: £2.3m) and Exceptional items (H1 18: £3.7m, H1 17: £nil)
[3] Adjusted earnings: Profit after tax before the impact of exceptional items, acquisition related amortisation and profit on disposal of discontinued businesses
[4] Free cash flow: Cash generated from operations after interest and tax costs, maintenance capital expenditure and capitalised Research and Development expenditure.
[5] Free cash flow conversion: Free cash flow generated from / (used by) the business expressed as a % of adjusted EBITDA from Continuing Operations.
[6] Constant currency revenue growth: Calculated by applying 2018 monthly exchange rates to the 2017 monthly results. Average rates for the Group's two principal foreign currencies (USD and €) are set out in the CFO review.

Segmental, operational and financial performance

Segmental performance									
	Language Services			**Language Technologies**			**Global Content Technologies**		
	H1 18	**H1 17**	**change**	**H1 18**	**H1 17**	**change**	**H1 18**	**H1 17**	**change**
Revenues	£91.8m	£89.5m	2.6%	£24.0m	£22.5m	6.6%	£27.3m	£27.2m	0.4%
Gross Profit Margin	41.8%	38.4%	3.4%	77.1%	79.1%	(2.0)%	68.9%	66.6%	2.3%
EBITA	£9.9m	£9.5m	4.2%	£3.7m	£2.6m	42.3%	£7.5m	£4.2m	78.6%
Corporate costs of £9.1m (H1 17: £8.0m)									

Strategic, operational and financial KPIs	**H1 18**	**H1 17**
Continuing Operations - constant currency revenue growth	**6.0%**	4.9%
Technology Annual Recurring Contract Value (ARCV) – Term licences included (pre IFRS15)	**£64.4m**	£62.7m
Technology Annual Recurring Revenue (ARR) – Term licences excluded (post IFRS15)	**£58.8m**	£58.7m
Language Services Repeat Revenue Rate (RRR)	**94%**	93%
Premium Services revenue	**£18.6m**	£20.1m
Number of Upsell and Cross-Sell deals	**88**	99
Machine Translation, Marketing Solutions and Life Science Wins	**34**	21
Linguistic utilisation (H1 average)	**54.3%**	51.2%
Linguistic utilisation (June exit rate)	**55.7%**	51.6%
The definitions of strategic and operational KPIs are set out in the Appendix.		

Chairman's Statement

The first half of 2018 has been a period of steady progress. I feel that the impact of the changes we have been making over the last two years are finally beginning to show through in our results, particularly in the latter weeks of the first half, when we have seen a more efficient and operationally robust organisation beginning to deliver.

The extent of the changes Adolfo Hernandez and his team have undertaken should not be underestimated. Embedding these into our day-to-day operations, across 4,000 plus colleagues, in 39 countries, has taken time to feed through into our results.

The changes we have been making have created more opportunities to increase our delivery efficiency and, in time, improve our operating margins. Xenia Walters, our new CFO, is playing the key leadership role in driving these initiatives forward.

After the period end, we were very pleased to complete the acquisition of Donnelley Language Solutions. We believe that the acquisition will help us accelerate the delivery of our strategy particularly in the area of premium vertical market solutions. More specifically, Donnelley Language Solutions has advanced skills and experience in serving the needs of customers operating in highly regulated industries. We are delighted to welcome our new colleagues to SDL.

We enter the second half of the year with our market opportunity remaining as attractive as ever. Whilst there is still much work still to be done, we feel that our plans are beginning to deliver their expected results. We expect a further period of solid progress in the second half of the year.

David Clayton

Chairman

CEO Review

Financial Summary

After two years of root and branch transformation, I am pleased to report that SDL has delivered a stabilised performance in the first half of the year, as a result of the improved processes, the talent recruited and management capabilities put in place across the business in 2017. Group revenues grew 3% (6% at constant currency) and adjusted EBITA increased to £12.0m. Language Services revenues grew 3% (6% at constant currency) and its gross profit margin improved to 42% (H1 17: 38%). Technology revenues grew 3% (6% at constant currency), with the majority of slipped deals by value from Q4 2017 signed in the first half, and ahead of a number of product launches in the second half of 2018.

Cash generation improved significantly. Cash generated from continuing operations (before exceptional items) was £16.2m (H1 17: £1.6m) and, after the payment of the full year dividend, restructuring costs and capital expenditure, SDL's cash balance as at 30 June 2018 was £22.5m.

In July 2018, SDL announced the acquisition of Donnelley Language Solutions for a cash consideration of $77.5m, on a cash-free, debt-free basis. The acquisition has been funded through a mix of cash balances, new debt facilities and new equity of £36.2m. The acquisition is expected to be earnings enhancing in 2019.

At the time of the acquisition, we also announced a further cost transformation project that we are undertaking to bring SG&A costs, which were 36.8% of revenue in H1 17 and 38.2% in H1 18, more closely into line with industry benchmarks.

Customer update

Our focus on key account management is bearing fruit, delivering good growth amongst our top 20 clients (12% at reported rates). The last Net Promoter Score survey reported an increase from 20% to 25%. The Language Service team in North America delivered a record sales result and in EMEA, we saw solid repeat business, underpinned by innovative MT Post-Editing services for a large online travel customer. In Asia, we have delivered positive margin improvements through automation and improved account management and we have a good pipeline for the second half, particularly relating to Marketing Solutions activities.

In the Life Sciences vertical, we are ramping up several customers which we expect to accelerate services revenue in the second half and we won a number of software deals with pharmaceutical companies for both language technology and structured content technology.

We also continue to build our software partner strategy, which we hope will become a major lever of growth in the long term. Over half of the software deals in the first half were partner-influenced. We were pleased to add Nuance (speech recognition) and Veeva (Life Sciences) as strategic partners in the first half.

Overall, our second half pipeline is healthy and in line with our plan.

We are excited to be joined by the Donnelley Language Solutions team in the second half. DLS brings a customer team of approximately 100 staff, with specialist skills in premium markets. They will continue to operate under their current structure for the remainder of the year. However, we are already working together to identify and incentivise cross and upselling opportunities where appropriate. We are very positive about the growth opportunities for the enlarged business.

Strategy and operating update

In the Half year, SDL has continued to make good progress on the four pillars of its strategy, which are: Language Services automation, premium solutions, technology innovation and organisational modernisation. The aims of this strategy are to provide leadership in global content solutions and to do this on a more agile, modernised operating model that will enable SDL to scale effectively and drive towards its medium term Group operating margin targets of mid to high teens.

Language Services Automation

- *Helix On Track with much improved Business Intelligence*

The Helix programme continues to make good progress. A significant proportion of our client work flows through this and is already making a positive impact on how we execute. A key change that Helix is enabling is more efficient "follow-the-sun" workflows, enabling greater continuous localisation. It has also significantly enhanced the vendor on-boarding processes through our Workzone portal.

Additionally, the data we are generating from Helix is now being used to train custom Machine Learning engines to route work automatically and intelligently to the most appropriate resources. This will address one of the industry's greatest challenges: creating the immediate localisation capacity to meet clients' often complex and immediate needs.

SDL made excellent progress through the first half to build out the Business Intelligence strategy initiated in 2017. The aim of this strategy is to provide accurate, up to date, detailed and actionable information in our Language Services business that we can use internally and share with customers.

- *Returns on Investment*

SDL has invested a total of £8.0m capital expenditure in Helix since the end of 2016, including £2.1m in H1 18, with a further £2m anticipated in H2 18. The Helix business case is predicated on increasing 'linguistic utilisation', defined as the percentage of working hours spent on billable translation work rather than administration and other activities, and reducing project management costs. In July 2018, 9m words a week were being processed through Helix. These savings will be primarily recognised in the Language Services gross margin and, as previously disclosed, SDL's target remains to drive exit-rate gross margins to over 45% for SDL by the end of 2018 (FY 17: 40.2%), excluding Donnelley Language Solutions.

Premium Services and Solutions

Premium services are focused on higher value content, which is typically found in regulated industries or marketing organisations. For reporting simplicity, SDL currently classifies its Premium Services as those services revenues generated from Life Sciences and Marketing Solutions. In H1 18, Premium Services revenues contracted slightly to £18.6m (H1 17: £20.1m), which reflects the timing of certain programmes of two significant customers which started later in the period.

Premium Services often come with associated complex workflows that are particular to a customer or industry. SDL is increasingly leveraging its language and content technology portfolio to automate and manage such workflows. An example of this is SDL's Multilingual Submission Management ("MSM") platform, which is based on our collaboration platform SDL GroupShare. MSM enables the global automation of marketing authorisation applications to regulatory authorities in over 100 languages and markets. SDL aims to create more solutions that will move SDL up the value chain and offer the opportunity for sustainable differentiation and deeper client relationships.

As part of this strategy, in July 2018, SDL was delighted to announce the acquisition of Donnelley Language Solutions, a specialist language services business, focused on regulated industries. This acquisition bolsters SDL's service revenues in Financial Services and Life Sciences, which together accounted for approximately 70% of Donnelley Language Solutions' 2017 revenues. Donnelley Language Solutions brings a blue chip customer base and many years' experience of offering services tailored to these demanding markets. From the second half onwards, SDL will also report Financial Service revenues as part of Premium Service revenues.

Technology Innovation

- *Language Technologies*

SDL continues to drive innovation across its portfolio of market-leading language technologies, from client-side translation management software to the tools and platforms used by translators and project managers and to Neural Machine Translation. We continue to add new capabilities and features but also to invest in next generation, cloud-first architectures.

Translation Productivity delivered a stable performance in the first half of the year, ahead of the release of Studio 2019 in July 2018. Our collaboration solution, SDL GroupShare, grew strongly and the pre-launch of Studio 2019 has been the most successful to date of the world's most popular Computer Aided Translation software.

During the first half of this year, SDL Language Technology continued to make good progress on its key themes of integration, convergence, customer satisfaction, security and user experience across all areas of the product portfolio. The strategy of developing features on SDL's Language Cloud platform and surfacing those features in the current products continued to bear fruit. SDL Language Technology also focused on ensuring our products were integrated with SDL's internal systems to help optimise day-to-day operations and project management efficiency as well as ensuring we have technology that supports SDL's premium vertical solutions.

The second half of the year will see continued focus on this strategy of sourcing development on SDL's Language Cloud platform as it means the existing products can benefit from SDL's latest technology R&D while, at the same time, ensuring the products converge to a unified way of working.

Machine Translation is used as a productivity tool by SDL's translators and is sold to enterprises and governments around the world. We made good progress on our Neural Machine Translation (NMT) development in the first half, with 63 NMT language pairs now released. We also released SDL NMT 2.0 platform, which unlocked an extra 25% quality improvement and we showcased Russian to English NMT, where our technology showed the best quality in the market. Japanese, Chinese, Korean and Arabic are also showing promising results, languages which have historically been both difficult for MT and high growth areas.

- *Global Content Technologies*

SDL's Global Content Technologies portfolio is focused on the complex content management needs of enterprises and institutions, in the context of rising digital content volumes, regulation and the demands of consumers for a consistent digital experience.

The first half saw growing momentum for our DITA-based structured content solution, SDL Tridion Docs, as a growing range of business types attempt to solve the complexity of creating, managing and distributing in-depth product content and technical documentation at scale.

In the second half, SDL will be releasing a next version of SDL Tridion DX (Digital Experience), which combines SDL Tridion Sites 9 and SDL Tridion Docs. SDL Tridion DX enables organisations to build ‘continuity of experiences’ across its digital and organisational silos, solving the fragmentation that is seen today, for example, between marketing material and customer support pages.

- *Application of Machine Learning*

To date, SDL’s application of Machine Learning has focused on the complex task of translation. However, with the advent of neural machine learning, we are now able to apply the technology to a range of ‘Linguistic AI’ use-cases that have the potential to accelerate content-related processes and workflows. Some of these, such as document content analysis and smart-routing, will have application within SDL’s automation programme; others will be used to enhance SDL’s language and content technology offerings. We look forward to sharing more information on these developments in the coming months.

Continued focus on driving modernisation and operational efficiencies

Having recently announced how overheads are applied across our business segments in a more relevant and meaningful way, a project is now underway, in partnership with PwC, to review our overhead performance. We believe that there are savings to be made and over the coming months we will be working with them on a benchmarking exercise to ensure that our overheads are more closely aligned with peers and the needs of the business.

Acquisition of Donnelley Language Solutions

The acquisition of Donnelley Language Solutions completed on 22 July and so had no effect on SDL’s financial performance in the first half.

Both businesses have much to share and to learn from each other. Over time, we believe that the acquired business will also be able to benefit from elements of SDL’s operating model, such as the use of in-house translators, Machine Translation and Helix, to drive its services gross margin towards levels delivered by SDL’s premium services.

We are delighted to be joined by the former Donnelley Language Solutions team at this exciting time in SDL’s journey and integration work has already started with a focus on customers and employees on-boarding and back-office integration.

Outlook

We look forward to the second half of the year, as we drive the financial benefits of the Helix automation programme and a number of new products releases. We expect the outturn for the full year to be in line with management expectations. We expect the acquisition of Donnelley Language Solutions to be earnings accretive from next year.

Adolfo Hernandez

Chief Executive Officer

CFO Review

We delivered a successful first half performance growing revenue, margin and profit and making good progress towards the goals we set for the 2018 financial year.

Measuring our Financial Performance

In addition to the operational KPIs detailed above (page 3 in this document), the Board also monitors financial KPIs from Continuing Operations being Revenue, Adjusted EBITA and Free Cash Flow. Specifically, these KPIs exclude the impact of exceptional items, acquisition-related amortisation and profits or losses relating to the discontinued businesses. Such items arise from events which are exceptional by their incidence or size, and while they may generate substantial income statement amounts, do not relate to ongoing operational performance that underpins long-term value generation.

Income Statement

	H1 18	**H1 17**
Language Services	91.8	89.5
Language Technologies	24.0	22.5
Global Content Technologies	27.3	27.2
Revenues from Continuing Operations	**143.1**	**139.2**
Revenues from Discontinued Operations	-	2.0
Group revenues	**143.1**	**141.2**
Gross profit from Continuing Operations	**75.7**	**70.3**
Gross profit margin from Continuing Operations (%)	52.9%	50.5%
Administrative expenses excluding acquisition amortisation and exceptional items from Continuing Operations	(63.7)	(62.0)
Segmented Adjusted EBITA		
Language Services	9.9	9.5
Language Technologies	3.7	2.6
Global Content Technologies	7.5	4.2
Corporate costs	(9.1)	(8.0)
Adjusted EBITA from Continuing Operations	**12.0**	**8.3**
Adjusted EBITA margin from Continuing Operations (%)	**8.4%**	**6.0%**
Exceptional items	**(3.7)**	(2.6)
Adjusted EBITA from Discontinued Operations	**-**	(3.1)
Group EBITA	**8.3**	**2.6**
Amortisation of acquired intangibles	**(0.5)**	(2.3)
Profit on disposal of Discontinued Operations	**-**	20.6
Profit before taxation	**7.8**	**20.9**
Taxation charge	**(2.2)**	(2.2)
Profit after taxation	**5.6**	**18.7**

Overview

Revenue from Continuing Operations increased 2.8% to £143.1m (H1 17: £139.2m), with constant currency revenue growth of 6.0%. Adjusted EBITA from Continuing Operations improved 44.6% to £12.0m (H1 17: £8.3m) and Profit before Taxation increased to £7.8m (H1 17: £6.0m).

Revenue

Revenue from Continuing Operations of £143.1m was driven by a 2.6% increase in Language Service revenues, a 6.6% increase in Language Technology revenues and a 0.4% increase in Global Content Technology revenues. Group revenues showed constant currency growth of 6.0%, and Language Services, Language Technology and Global Content Technology showed constant currency growth of 5.9%, 7.7% and 5.1% respectively. Our Annual Recurring Contract Value (ARCV) for our technology businesses grew 2.7% to £64.4m. (H1 17: £62.7m). Our ARR, which excludes the licence element of term licences following the adoption of IFRS15, was £58.8m (H1 17: £58.7m).

The Group continues to benefit from a broad customer base and no single customer contributes more than 7% of group revenue. Our top 10 customers accounted for 24% of H1 18 group revenue.

Gross Profit Margin

Gross profit margin from Continuing Operations grew 2.4% to 52.9% (H1 17: 50.5%) driven by improved margins in Language Services and Global Content Technology offset by reduced margin in Language Technology.

Performance by Segment

Language Services

Language Services contributed 64% of first half revenues at £91.8m (H1 17: £89.5m). This represented a 2.6% year-on-year increase, with constant currency growth of 5.9%. RRR was at 94% (H1 17: 93%).

Revenues from premium verticals of £18.6m were marginally down due the timing of certain programmes of two significant customers which started later in the period.

Language Services gross profit margin increased to 41.8% (H1 17: 38.4%) driven by the optimization of processes, increased use of machine translation and an increased proportion of work being performed in house.

Segment Adjusted EBITA margin improved to 10.8% (H1 17: 10.6%). Gross margin has increased to 41.8% (H1 17: 38.4%) due to efficiency improvements being realised in our delivery model which includes increased use of machine translation (H1 18: 33.8%, H1 17: 15.2%), greater control of external freelancer spend and the benefits of Helix starting to materialise. Helix and process improvements have helped linguistic utilisation improve to 55.7% by the end of June 2018 (June 2017: 51.6%).

Further margin expansion is expected in the second half as process changes become fully embedded and more words are processed through the Helix platform.

Investment in Helix will continue in 2018 and the expectation is that this will deliver further productivity improvements and greater margins in the second half and beyond.

Language Technologies

Language Technologies revenues of £24.0m contributed 17% of H1 18 revenues (H1 17: £22.5m). This represented a 6.6% year-on-year increase and constant currency growth of 7.7%. ARCV increased to £26.3m (H1 17: £24.6m) and ARR increased to £24.0m (H1 17: £23.1m).

Constant currency revenue growth was driven by a 16% increase in Translation Management revenues and a 13% increase in Machine Translation revenues. Translation Productivity delivered another good first half with H1 18 revenue on par with last year; the prior period revenues benefitting from the Studio 2017 product release in late 2016. The second half of this year will benefit from the release of Studio 2019 which has had the largest presale orders of any Studio release to date.

Language Technologies gross profit margin contracted 2.0% to 77.1% (H1 17: 79.1%) due to the mix of perpetual license and SaaS sales.

In the six months to 30 June 18, customer renewal rate was 93% (FY 17: 92%)

Segment Adjusted EBITA increased to £3.7m (H1 17: £2.6m). This is primarily driven by an increase in revenues and net capitalisation of R&D spend of £1.0m offset by the slippage of some perpetual and term deals into the second half of this year.

Global Content Technologies

Global Content Technologies revenues contributed 19% of H1 18 revenues at £27.3m (H1 17: £27.2m). This represented a 0.4% year-on-year increase and constant currency growth of 5.1%. ARCV of £38.1m was in line with last year and ARR fell to £34.8m (H1 17: £36.0m).

The 5.1% constant currency revenue growth was driven by a 22% increase in Tridion Docs and a 4% increase in Contenta products. Tridion Sites revenues were in line with H1 17.

Global Content Technologies gross profit margin increased to 68.9% (H1 17: 66.6%) due to the mix of perpetual license and SaaS sales.

In the six months to 30 June 18, customer renewal rate was 91% (FY 17: 89%)

Segment Adjusted EBITA increased to £7.5m (H1 17: £4.2m). This was driven by a change in revenue mix to perpetual licenses and £1.8m net capitalisation of R&D spend in H1 18 (H1 17: Nil)

Administrative Expenses

Administrative Expenses – Continuing Operations	**H1 18**	**H1 17**
Administrative expenses	**67.9**	64.3
Amortisation of acquired intangible assets	**(0.5)**	(2.3)
Exceptional items	**(3.7)**	-
Adjusted Administrative expenses	**63.7**	62.0
Adjusted Administrative expenses as % of revenue	**44.5%**	44.6%

Adjusted administrative expenses as a percentage of revenue were at similar levels to the prior year.

Selling, general and administration (SG&A) costs amounted to £54.7m (H1 17: £51.2m) being 38.2% of revenues (H1 17: 36.8%). Costs increased in the period due to wage inflation, variable compensation, higher IT infrastructure costs and Helix amortisation which were offset in part by savings from the Group restructuring programme. We have announced a further cost transformation project that we are undertaking to bring SG&A costs more closely into line with benchmarks.

R&D costs in the period amounted to £12.1m. This included £9.0m (H1 17: £10.8m) expensed within administrative costs and £3.1m (H1 17: £nil) capitalised as intangible assets on the balance sheet. The Group has capitalized R&D costs as the recognition criteria of IAS 38 has been met by the majority of product line development teams. Development costs of approx. £4m are expected to be capitalised in the second half.

Management continued to exercise strong cost control to streamline the operating model, whilst maintaining adequate levels of spend in R&D and sales to ensure that we can execute our strategy and grow sales over the medium to long term.

Adjusted EBITA

Adjusted EBITA from Continuing operations increased by 45% to £12.0m (H1 17: £8.3m). This includes £3.1m of R&D expenditure which has been capitalised in the year offset by R&D amortization of £0.3m. Excluding the impact of R&D capitalisation in the period, Adjusted EBITA of £9.2m grew 10.8% in the period (H1 17: £8.3m).

Corporate costs

Corporate costs of £9.1m (H1 17: £8.0m) are not segment specific. These costs have increased due to incremental variable compensation and segment agnostic IT infrastructure costs.

Exceptional items

Exceptional items amounted to £3.7m (H1 17: Continuing Operations £nil, Discontinued Operations £2.6m).

Following the financial underperformance in 2017, management began a restructuring programme to reduce costs in late 2017 and streamlining operations to deliver a more scalable and efficient operating model. Redundancy and related costs of £2.0m have been incurred in 2018 relating to this restructuring. Further redundancy costs, including related legal fees, amounting to £0.8m were incurred with the departure of the former CFO as previously announced. Other exceptional items relate to professional fees incurred in relation to the acquisition of Donnelley Language Solutions.

Exceptional costs have been separately disclosed in the income statement to provide a better guide to underlying business performance.

Group Profit Before Tax

Group profit before tax of £7.8m (H1 17: £20.9m) was lower than the prior period due to the £20.6m profit on sale of the discontinued businesses in 2017.

Taxation

The tax charge on Continuing Operations amounted to £2.2m (H1 17: £2.0m) and represents an effective tax rate of 24.7% before the impact of exceptional items and the impact of acquisition intangibles (FY 17: 29.7%).

The Group’s effective tax rate going forward will be influenced by the mix of profits generated from the Donnelley Language Solutions including the availability of goodwill deductions and the reducing impact of net R&D capitalisation.

Earnings per share

The Group's adjusted diluted earnings per share grew by 54% to 10.8p (H1 17: 7.0p). Basic earnings per share from Continuing Operations grew by 42% to 6.8p (H1 17: 4.8p).

Cash flow statement

	H1 18	H1 17
Adjusted EBITA from Continuing Operations	**12.0**	**8.3**
Depreciation	1.4	1.5
Adjusted EBITDA from Continuing Operations	**13.4**	**9.8**
Working capital, share based payments and non acquisition amortisation charges from continued operations	2.8	(8.2)
Adjusted operating cash flow[1] from Continuing Operations	**16.2**	**1.6**
Adjusted operating cash flow conversion from Continuing Operations	***121%***	***16%***
Maintenance capital expenditure	(1.4)	(1.9)
Capitalised R&D costs	(3.1)	-
Taxation paid	(1.2)	(1.2)
Free cash flow from Continuing Operations	**10.5**	**(1.5)**
Free cash flow conversion	***78%***	***(16)%***
Exceptional items	(2.9)	(4.7)
Investment capital expenditure	(2.4)	(3.5)
Cash consumed from Discontinued Operations	-	(3.0)
Disposal proceeds	-	22.3
Dividends paid	(5.1)	(5.1)
Other financing activities	0.2	0.6
Net cash flow	**0.3**	**5.1**
Opening net cash at 1 January	22.7	21.3
FX on cash	(0.5)	(0.3)
Closing net cash at 30 June	**22.5**	**26.1**

(1) Adjusted operating cash flow is cash generated from Continuing Operations before the cash impact of exceptional items and income tax paid.

Adjusted operating cash flow from Continuing Operations before tax was £16.2m (H1 17: £1.6m) principally due to higher variable compensation paid out in H1 17.

Capital expenditure of £6.9m includes payments for investment capital expenditure (£2.4m), maintenance capital expenditure (£1.4m) and R&D (£3.1m). These capitalised R&D costs are regarded as normal spending by the business and included within the definition of Free Cash Flow. Routine maintenance capital expenditure of £1.4m (H1 17: £1.9m) represents 1.0% of revenues. We expect maintenance capital expenditure in FY18 to be in line with our target of 1% of revenue.

Investment capital expenditure of £2.4m includes £2.1m on our centralised Language Service delivery platform, Helix, which will allow us to drive scale and efficiency improvements. In addition, we incurred £0.3m on other IT related investment capex.

Tax paid of £1.2m (H1 17: £1.2m) primarily relates to tax paid in our US entities including an on account payment made in respect of US transition tax liabilities.

The cash impact of exceptional items amounted to £2.9m (H1 17: £4.7m). This includes £2.8m of severance payments in the period.

Dividends of £5.1m were paid in the period (H1 17: £5.1m). Other financing activities includes proceeds from the sale of own shares of £0.2m (H1 17: £0.6m).

Funding and Capital Structure

The Group had cash balances at 30 June of £22.5m with no external borrowings (30 June 2017: £26.1m net cash). As a result, no interest costs were incurred in the period. At 30 June 2018, the Group had a £25m committed revolving credit facility and a £25m uncommitted Accordion facility expiring in August 2020.

On 15 July 2018, the Group entered into a new £70m committed revolving credit facility, expiring in July 2023, which replaced the Group's previous facility. The agreement includes a £50m uncommitted Accordion facility.

Subsequent events

On 22 July 2018, the Group completed its acquisition of Donnelley Language Solutions for $77.5m. This business is a growing and profitable business and the acquisition is expected to be earnings accretive in 2019.

The Group chose to fund the acquisition through a mix of cash from corporate resources, an equity placing which raised £36.2m and a debt draw of $25.6m (£19.8m).

Going Concern Statement

The Group's business activities, performance and position, together with the factors likely to affect its future development, are set out in the Group's Strategic Report in its 2017 Annual Report. The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The processes in place for assessment, management and monitoring of risks are described in the 2017 Annual Report. Details of the financial risk management objectives and policies of the Group are also given in the 2017 Annual Report.

The Board has considered the impact of the recent acquisition of the Donnelley Language Solutions business. The Board believe that the Group is well placed to manage its business risks successfully going forward. The Board's assessment of prospects and stress test scenarios, together with its review of principal risks and the effectiveness of risk management procedures, show that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements. In forming their view, the Directors have considered the Group's prospects for a period exceeding 12 months from the date when the financial statements are approved.

Xenia Walters

Chief Financial Officer

3 August 2018

SDL plc
Condensed Consolidated Income Statement

	Notes	**Unaudited 6 months to 30 June 2018 Total £m**	Unaudited 6 months to 30 June 2017 (restated) Continuing £m	Discontinued £m	Total £m
Sale of goods		**20.1**	16.8	1.6	18.4
Rendering of services		**123.0**	122.4	0.4	122.8
REVENUE	2	**143.1**	139.2	2.0	141.2
Cost of sales		**(67.4)**	(68.9)	(1.9)	(70.8)
GROSS PROFIT		**75.7**	70.3	0.1	70.4
Administrative expenses		**(67.9)**	(64.3)	(5.8)	(70.1)
OPERATING PROFIT/(LOSS)	3	**7.8**	6.0	(5.7)	0.3
Operating profit before amortisation of acquired intangibles and exceptional items		**12.0**	8.3	(3.1)	5.2
Exceptional items	3	**(3.7)**	-	(2.6)	(2.6)
Amortisation of acquired intangibles	3	**(0.5)**	(2.3)	-	(2.3)
OPERATING PROFIT/(LOSS)		**7.8**	6.0	(5.7)	0.3
Profit on disposal of non-core business		**-**	-	20.6	20.6
PROFIT BEFORE TAX		**7.8**	6.0	14.9	20.9
Tax expense	4	**(2.2)**	(2.0)	(0.2)	(2.2)
PROFIT FOR THE PERIOD		**5.6**	4.0	14.7	18.7
EARNINGS PER SHARE					
Basic		**6.8p**	4.8p	18.1p	22.9p
Diluted		**6.7p**	4.7p	17.8p	22.5p

Adjusted earnings per ordinary share (basic and diluted) are shown in note 5.

The Group's 2017 comparatives have been restated for the adoption of IFRS 15 Revenue from Contracts with Customers

SDL plc
Half year Condensed Consolidated Statement of Comprehensive Income

	Unaudited 6 months to 30 June 2018 £m	Unaudited 6 months to 30 June 2017 (restated) £m
Profit for the period	**5.6**	18.7
Currency translation differences on foreign operations	**(0.7)**	0.9
Currency translation differences on foreign currency equity loans to foreign subsidiaries	**-**	(5.8)
Income tax credit on currency translation differences on foreign currency equity loans to foreign subsidiaries	**-**	0.2
Other Comprehensive Income	**(0.7)**	(4.7)
Total Comprehensive Income	**4.9**	14.0

All the total comprehensive income is attributable to equity holders of the parent Company. A currency translation difference on a foreign operation may be reclassified to the Income Statement upon disposal of that operation.

The Group's 2017 comparatives have been restated for the adoption of IFRS 15 Revenue from Contracts with Customers

SDL plc
Half year Condensed Consolidated Statement of Financial Position

	Unaudited 30 June 2018 £m	Unaudited 30 June 2017 (restated) £m	Audited 31 December 2017 (restated) £m
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	**8.8**	9.4	9.6
Intangible assets	**158.4**	146.9	152.9
Deferred income tax	**10.1**	6.9	11.2
Contract fulfilment assets	**0.9**	0.8	1.3
Rent deposits	**1.6**	2.0	1.9
	179.8	166.0	176.9
CURRENT ASSETS			
Trade and other receivables	**90.3**	79.7	87.0
Corporation tax	**1.9**	3.2	2.6
Cash and cash equivalents	**22.5**	26.1	22.7
	114.7	109.0	112.3
TOTAL ASSETS	**294.5**	275.0	289.2
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	**(83.9)**	(76.2)	(78.0)
Current tax liabilities	**(9.9)**	(9.6)	(10.6)
Provisions	**(1.2)**	(1.7)	(1.6)
	(95.0)	(87.5)	(90.2)
NON CURRENT LIABILITIES			
Other payables	**(0.9)**	(1.6)	(0.7)
Deferred tax liability	**(1.6)**	(1.3)	(1.6)
Provisions	**(2.9)**	(2.1)	(2.9)
	(5.4)	(5.0)	(5.2)
TOTAL LIABILITIES	**(100.4)**	(92.5)	(95.4)
NET ASSETS	**194.1**	182.5	193.8
EQUITY			
Share capital	**0.8**	0.8	0.8
Share premium	**100.9**	99.8	100.7
Retained earnings	**68.6**	57.6	67.8
Translation reserve	**23.8**	24.3	24.5
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**194.1**	182.5	193.8

The Half year Financial Information presented in this Half year Report was approved by the Board of Directors on 3 August 2018.

The Group's 2017 comparatives have been restated for the adoption of IFRS 15 Revenue from Contracts with Customers

SDL plc
Half year Condensed Consolidated Statement of Changes in Equity

	Share Capital £m	Share Premium £m	Retained Earnings £m	Translation Reserve £m	Total £m
At 31 December 2016 (audited)	0.8	99.2	39.7	29.0	168.7
IRFS 15 restatement	-	-	3.1	-	3.1
At 31 December 2016 (restated)	0.8	99.2	42.8	29.0	171.8
Profit for the period	-	-	18.7	-	18.7
Other comprehensive income	-	-	-	(4.7)	(4.7)
Total comprehensive income	-	-	18.7	(4.7)	14.0
Dividend paid	-	-	(5.1)	-	(5.1)
Deferred income taxation on share based payments*	-	-	0.4	-	0.4
Arising on share issues*	-	0.6	-	-	0.6
Share-based payments*	-	-	0.8	-	0.8
At 30 June 2017 (restated)	0.8	99.8	57.6	24.3	182.5
Profit for the period	-	-	11.4	-	11.4
Other comprehensive income	-	-	-	0.2	0.2
Total comprehensive income	-	-	11.4	0.2	11.6
Deferred income taxation on share based payments*	-	-	(0.6)	-	(0.6)
Arising on share issues*	-	0.9	-	-	0.9
Share-based payments*	-	-	(0.6)	-	(0.6)
At 31 December 2017 (restated)	**0.8**	**100.7**	**67.8**	**24.5**	**193.8**
Profit for the period	**-**	**-**	**5.6**	**-**	**5.6**
Other comprehensive income	**-**	**-**	**-**	**(0.7)**	**(0.7)**
Total comprehensive income	**-**	**-**	**5.6**	**(0.7)**	**4.9**
Dividend paid	**-**	**-**	**(5.1)**	**-**	**(5.1)**
Deferred income taxation on share based payments*	**-**	**-**	**(0.1)**	**-**	**(0.1)**
Arising on share issues*	**-**	**0.2**	**-**	**-**	**0.2**
Share-based payments*		**-**	**0.4**		**0.4**
At 30 June 2018	**0.8**	**100.9**	**68.6**	**23.8**	**194.1**

*These amounts relate to transactions with owners of the Company recognised directly in equity.The amounts above are attributable to the equity of the parent Company.

The Group's 2017 comparatives have been restated for the adoption of IFRS 15 Revenue from Contracts with Customers

SDL plc
Half year Condensed Consolidated Statement of Cash Flows

	Unaudited 6 months to 30 June 2018 £m	Unaudited 6 months to 30 June 2017 (restated) £m
Profit for the period	**5.6**	18.7
Tax expense	**2.2**	2.2
Profit before tax	**7.8**	20.9
Depreciation of property, plant and equipment	**1.4**	1.5
Amortisation of intangible assets	**1.6**	2.3
Share-based payments	**0.4**	0.8
Gain on disposal of discontinued businesses	**-**	(20.6)
(Increase) / decrease in trade and other receivables	**(2.6)**	4.2
Increase / (decrease) in trade and other payables and provisions	**5.7**	(13.6)
Exchange differences	**(1.0)**	(1.6)
CASH GENERATED FROM / (USED BY) OPERATIONS	**13.3**	(6.1)
Cash generated from continuing operations before exceptional items	**16.2**	1.6
Cash used by discontinued operations	**-**	(3.7)
Cash outflows from exceptional items	**(2.9)**	(4.0)
CASH GENERATED FROM / (USED BY) OPERATIONS	**13.3**	(6.1)
Income tax paid	**(1.2)**	(1.2)
NET CASH FLOWS GENERATED FROM / (USED BY) OPERATING ACTIVITIES	**12.1**	(7.3)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire property, plant and equipment	**(6.9)**	(5.4)
Receipt from disposal of subsidiaries	**-**	22.3
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(6.9)**	16.9

The Group's 2017 comparatives have been restated for the adoption of IFRS 15 Revenue from Contracts with Customers

SDL plc
Half year Condensed Consolidated Statement of Cash Flows (continued)

	Unaudited 6 months to 30 June 2018 £m	Unaudited 6 months to 30 June 2017 (restated) £m
FINANCING ACTIVITIES		
Net proceeds from issue of ordinary share capital	**0.2**	0.6
Dividend paid on ordinary shares	**(5.1)**	(5.1)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(4.9)**	(4.5)
INCREASE IN CASH AND CASH EQUIVALENTS	**0.3**	5.1
MOVEMENT IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at start of the period	**22.7**	21.3
Increase in cash and cash equivalents	**0.3**	5.1
Effect of exchange rates on cash and cash equivalents	**(0.5)**	(0.3)
Cash and cash equivalents at end of the period	**22.5**	26.1

The Group has elected to present a statement of cash flows that analyses all cash flows in total.

The Group's 2017 comparatives have been restated for the adoption of IFRS 15 Revenue from Contracts with Customers

SDL plc
Notes to the Half year Condensed Consolidated Financial Statements

1. Basis of preparation and accounting policies

Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Half year condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared on a going concern basis in accordance with IAS 34 Half year Financial Reporting.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, this condensed set of Half year financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2017 with the exception of the adoption of IFRS 15 – Revenue Contracts with Customers. The impact of this restatement has been set out in Note 11 to this Half Year financial information.

The preparation of condensed consolidated Half year financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results for which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

The principal risks and uncertainties were disclosed in the Group's annual report and financial statements for the year ended 31 December 2017 and remain broadly unchanged. SDL has an established process both to manage risk and to seek to mitigate the impact of risk as much as possible should it materialise. Operational risks include management succession, system interruption and business continuity, data protection, compliance, contract management, integration of acquisitions, maintaining technology leadership and intellectual property. Financial risks include liquidity, counterparties, interest rates and financial reporting.

Going Concern

In line with code requirements, the Directors have made enquiries concerning the potential of the business to continue as a going concern. Enquiries included a review of projected performance over the next 12 months from the date of signing this report, 2018 annual plans, a review of working capital including the liquidity position and a review of current indebtedness levels. The Directors confirm they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Given this expectation they have continued to adopt the going concern basis in preparing the Half year financial statements.

2. Segment information and revenue disclosures

The Group operates in the global content management and language translation software and services industry. For management reporting purposes, the Group is organised into business units based on the nature of their products and services. The Group had four reportable operating segments as follows:

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

- The Global Content Technologies segment is content management and knowledge management technologies together with associated consultancy services.
- The Non-Core Businesses segment includes the sale of campaign management, social media monitoring and marketing analytic and Fredhopper technologies together with associated consultancy and services.

The Chief Operating Decision Maker monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment prior to charges for tax and amortisation.

In line with the Group's strategic objective of operating as 'One SDL' and removing silos and overlaps across segments, the Group's operating framework has evolved such that increasing proportions of our activities, and hence cost base, influence multiple segments. As such, the importance of shared cost allocation methodologies has grown over the past 18 months or so.

As previously announced the Group has concluded its shared cost allocation review during the period and shared costs are now being allocated on activity based methodologies. In prior years, shared costs for segmental reporting purposes have generally been apportioned to reporting segments either on a headcount or revenue basis. In addition, management have also recognised that the Group has a significant amount of corporate costs which are not segment specific. These costs have therefore been excluded from segment profitability and presented as a separate line below segment profit. The H117 impact of these changes in methodology has been to reduce Language Services, Language Technology and Global Content Technologies segments costs by £4.1m, £1.8m and £2.1m respectively.

Management have concluded that changing the shared cost allocation methodologies and separately disclosing these corporate costs gives a better representation of segment profitability.

Six months ended 30 June 2018 (unaudited)

	External Revenue £m	Depreciation £m	Segment profit before taxation, acquisition related amortisation and exceptionals £m
Continuing segments			
Language Services	**91.8**	**1.0**	**9.9**
Language Technologies	**24.0**	**0.2**	**3.7**
Global Content Technologies	**27.3**	**0.2**	**7.5**
Total Continuing Segments	**143.1**	**1.4**	**21.1**
Corporate costs			**(9.1)**
Exceptional items			**(3.7)**
Acquisition related amortisation[7]			**(0.5)**
Profit before taxation			**7.8**

[7] In 2018, Group amortisation charges includes capitalised software and research and development amounts which have been charged to their respective segments above. Prior year amortisation is entirely acquisition related.

Six months ended 30 June 2017 (unaudited - restated)

	External Revenue £m	Depreciation £m	Segment profit/(loss) before taxation, acquisition related amortisation and exceptionals £m
Continuing segments			
Language Services	89.5	1.2	9.5
Language Technologies	22.5	0.2	2.6
Global Content Technologies	27.2	0.1	4.2
Total continuing segments	139.2	1.5	16.3
Discontinued Operations	2.0	-	(3.1)
Total	141.2	1.5	13.2
Corporate costs			(8.0)
Exceptional items			(2.6)
Acquisition related amortisation			(2.3)
Profit on disposal of discontinued operations			20.6
Profit before taxation			20.9

Revenue by geographical destination was as follows:

	Unaudited 6 months to 30 June 2018 £m	Unaudited 6 months to 30 June 2017 (restated) £m
United Kingdom	**17.5**	16.2
Rest of Europe	**38.4**	35.8
USA	**62.2**	59.0
Canada	**5.4**	6.2
Rest of the World	**19.6**	22.0
Discontinued operations	**-**	2.0
	143.1	141.2

Revenue by type was as follows:

	Unaudited 6 months to 30 June 2018 £m	**Unaudited 6 months to 30 June 2017 (restated) £m**
Services	**98.6**	97.0
Support and maintenance	**20.1**	21.6
Perpetual licences	**11.8**	10.2
Term licences	**2.3**	1.7
Software as a Service (SaaS)	**9.1**	7.7
Hosting services	**1.2**	1.0
Discontinued operations	**-**	2.0
	143.1	141.2

3. Operating profit

	Unaudited 6 months to 30 June 2018	Unaudited 6 months to 30 June 2017 (restated)		
	Total	Continuing	Discontinued	Total
	£m	£m	£m	£m
Is stated after charging / (crediting):				
Research and development expenditure	**8.7**	10.8	1.1	11.9
Bad debt charge/(credit)	**0.6**	(0.5)	-	(0.5)
Depreciation of owned assets	**1.4**	1.5	-	1.5
Amortisation of internally generated intangibles	**1.1**	-	-	-
Amortisation of acquired intangible assets	**0.5**	2.3		2.3
Operating lease rentals for plant and machinery	**0.1**	0.1	-	0.1
Operating lease rentals for land and buildings	**3.6**	3.4	-	3.4
Net foreign exchange differences	**(0.7)**	(0.1)	-	(0.1)
Share based payment charge	**0.4**	0.9	-	0.9

Following the capitalisation of research and development cost in 2017, the Group has changed the basis of research and development cost disclosure of amounts charged to the profit and loss account above. These costs are now disclosed on the basis of direct costs only, in line with the capitalised costs basis. In prior years, the costs were disclosed on a fully absorbed basis.

The impact of this change has been to reduce research and development costs in 2017 from £15.9m to £10.8m for Continuing Operations and from £17.0m to £11.9m for the total Group. Management believe that the presentation of consistent research and development disclosures provides more meaningful information to the users of the Half year financial information.

Exceptional items

	Unaudited 6 months to 30 June 2018	Unaudited 6 months to 30 June 2017 (restated)		
	Continuing	Continuing	Discontinued	Total
	£m	£m	£m	£m
Severance costs	**2.8**	-	0.8	0.8
Acquisition costs	**0.9**	-	1.8	1.8
Total exceptional items	**3.7**	-	2.6	2.6

Following the Group's underperformance in 2017, management began a restructuring programme to reduce costs. Redundancy costs of £2.8m have been incurred in 2018 relating to this restructuring. This cost included an amount of £0.8m relating to the departure of the former CFO.

Acquisition costs relate to due diligence and advisor fees incurred in relation to the acquisition of Donnelley Language Solutions.

Prior period exceptional items relate to professional fees and onerous lease charges associated with the disposals of the discontinued businesses (£1.8m) and redundancy costs associated with employees that did not transfer with the discontinued businesses (£0.8m).

These have been separately disclosed in the income statement to provide a better guide to underlying business performance.

4. Taxation

	Unaudited 6 months to 30 June 2018 £m	Unaudited 6 months to 30 June 2017 (restated) £m
Total current taxation	**1.1**	2.0

	Unaudited 6 months to 30 June 2018	Unaudited 6 months to 30 June 2017 (restated)
Deferred taxation:	**£m**	£m
Origination and reversal of timing differences	**1.1**	0.2
Total deferred taxation	**1.1**	0.2
Tax expense	**2.2**	2.2

A tax charge in respect of foreign currency translation differences on foreign currency loans to foreign subsidiaries of £0.2m was recognised in the statement of other comprehensive income in H1 18 (H1 17: £0.2m credit).

A tax credit in respect of share based compensation for deferred taxation of £0.1m (H1 17: £0.4m) has been recognised in the statement of changes in equity in the period.

5. Earnings per share

	Unaudited 6 months to 30 June 2018 £m	Unaudited 6 months to 30 June 2017 (restated) £m
Profit for the period attributable to equity holders of the parent	**5.6**	18.7

	Number	Number
Basic weighted average number of shares (million)	**82.3**	81.7
Employee share options and shares to be issued (million)	**1.5**	1.2
Diluted weighted average number of shares (million)	**83.8**	82.9

	Unaudited 6 month to 30 June 2018	Unaudited 6 months to 30 June 2017 (restated)		
	Continuing £m	Continuing £m	Discontinued £m	Total £m
Profit for the period attributable to equity holders of the parent	**5.6**	4.0	14.7	18.7
Profit on disposal of discontinued business	**-**	-	(20.6)	(20.6)
Amortisation of acquisition related intangible fixed assets	**0.5**	2.3	-	2.3
Exceptional items	**3.7**	-	2.6	2.6
Tax cost associated with profit on disposal of discontinued business	**-**	-	0.2	0.2
Deferred tax benefit associated with amortisation of acquisition related intangible fixed assets	**(0.1)**	(0.5)	-	(0.5)
Tax benefit associated with exceptional items	**(0.6)**	-	-	-
Adjusted profit for the period attributable to equity holders of the parent	**9.1**	5.8	(3.1)	2.7

Adjusted earnings per share is shown as the Directors believe that earnings before acquisition related amortisation and exceptional items is reflective of the underlying performance of the business.

	Unaudited 6 month to 30 June 2018 Continuing	Unaudited 6 month to 30 June 2017 (restated) Continuing	Discontinued	Total
Adjusted earnings per ordinary share – basic (p)	**11.0p**	7.1p	(3.8)p	3.3p
Adjusted earnings per ordinary share – diluted (p)	**10.8p**	7.0p	(3.8)p	3.2p

6. Dividend per share
Dividends paid in H1 18 were £5.1m (H1 17: £5.1m). The dividends paid in 2018 and 2017 amounted to 6.2p per share.

7. Interest-bearing loans
At 30 June 2018, the Group had a £25 million committed facility and a £25 million uncommitted accordion facility with HSBC Bank Plc. These facilities expire on 2 August 2020.

On 15 July 2018, the Group entered into a new £70m committed banking facility with Lloyds Bank and HSBC replacing the former facility. This new facility expires on 14 July 2023 and also provides an additional uncommitted facility of £50 million.

8. Share-based compensation grants
On 16 April 2018, 1,386,712 Long Term Incentive Plan (LTIP) shares were awarded to certain key senior executives and employees of the SDL Group.

9. General notes
The comparative figures for the financial year ended 31 December 2017 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

10. Events after the statement of financial position date
On 22 July 2018, the Group completed the acquisition of the Donnelley Language Solutions business for $77.5 million. The acquisition was funded by internal cash resources, an equity placing which raised £36.2m (£35.1m net of fees) and a $25.6m drawdown under its new banking facility (see note 7). The provisional identification of the acquired assets and liabilities is not presented due the proximity of the transaction to the reporting date.

There are no other known events occurring after the statement of financial position date that require disclosure.

11. Impact of adoption of IFRS 15 – Revenue from Contracts with Customers
IFRS 15 – Revenue from Contracts with Customers (IFRS 15) establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It has replaced existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

The Group has used the retrospective adoption approach under which the Group has applied all of the requirements of IFRS 15 to each comparative period presented and adjusted the 2017 comparatives within the 2018 consolidated Half year financial information.

The Group has made opening balance sheet adjustments arising from changes to the revenue recognition treatment of term licences and the capitalisation of costs to obtain contracts. The impact of the restatement on its 2017 accounts is set out below:

£m, Debit/(Credit)	Balance sheet as at 31 December 2016	Profit and loss account 2017	Unaudited results Balance sheet as at 30 June 2017
Term licences	1.4	(0.1)	1.5
Capitalised commission	2.5	(0.2)	2.7
Deferred tax	(0.8)	0.2	(1.0)
Total impact	3.1	(0.1)	3.2

The Group's language services contracts provide for the Group to be reimbursed for work as it is undertaken. Accordingly the Group will continue to recognise revenue over time, on a percentage of completion basis. The Group's professional services work carried out either carried out on a time and materials basis, revenue recognised at a point in time as work is performed or on a fixed price basis where revenue is recognised over time, on a percentage of completion basis.

The Group's software licences are either perpetual, term or Software as a Service (SaaS) in nature.

Under IFRS 15, revenue on perpetual and term licences, where there is no significant future vendor obligation, is recognised on delivery, less an allowance for future costs. SaaS, support and maintenance and hosting contracts have material ongoing future performance obligations associated with them and hence revenue will be recognised over time. These policies are in line with the Group's current accounting policies with the exception of the treatment of term licences.

Term licences

In circumstances where a considerable future vendor obligation exists as part of a software licence and related services contract, SDL currently recognise revenue over the period that the obligation exists per the contract. Under IFRS 15, the provision of a licence over a period of time is not, in itself, considered an additional obligation on the vendor and therefore revenue for the licence element of such contracts will be recognised in full on delivery to the customer. The support and maintenance element of these contracts will be carved out and recognised over the support and maintenance and hosting (if applicable) service periods. The impact on 2017, as the comparative period, in the 2018 accounts will be to create a net accrued income balance sheet position of £1.4m at 31 December 2016 and £1.5m at 30 June 2017 and increase H1 2017 revenues by £0.1m.

Commissions

IFRS 15 requires the deferral of direct costs relating to the sale of goods or services to be recognised in line with the revenue for those contracts. The Group has determined that these direct costs will be recognised over the contracted term of the contract, as additional renewal commissions are payable for future contract extensions. The impact on the Group's 2017 reported numbers, as the comparative period in the 2018 accounts, will be to create capitalised contract costs on the balance sheet of £2.5m at 31 December 2016 and £2.7m at 30 June 2017 and decrease H1 2017 profit and loss account commission costs by £0.2m.

Detailed primary statement restatements

Detailed primary statement restatements arising from the adoption of IFRS 15 are set out below.

Impact on the Half year Condensed Consolidated Income Statement

	Unaudited 6 months to 30 June 2017		
	As reported £m	IFRS15 Restatement £m	Amounts with adoption of IFRS15 £m
Sale of goods	**18.3**	**0.1**	**18.4**
Rendering of services	**122.8**	**-**	**122.8**
REVENUE	**141.1**	**0.1**	**141.2**
Cost of sales	**(70.8)**	**-**	**(70.8)**
GROSS PROFIT	**70.3**	**0.1**	**70.4**
Administrative expenses	**(70.3)**	**0.2**	**(70.1)**
OPERATING PROFIT	**-**	**0.3**	**0.3**
OPERATING PROFIT BEFORE TAX, AMORTISATION AND EXCEPTIONAL ITEMS	**4.9**	**0.3**	**5.2**
Amortisation of intangible assets	**(2.3)**	**-**	**(2.3)**
Exceptional items	**(2.6)**	**-**	**(2.6)**
Operating profit	**-**	**0.3**	**0.3**
Profit on disposal of non-core business	**20.6**	**-**	**20.6**
Finance income	**-**	**-**	**-**
Finance costs	**-**	**-**	**-**
PROFIT BEFORE TAX	**20.6**	**0.3**	**20.9**
Tax expense	**(2.0)**	**(0.2)**	**(2.2)**
PROFIT FOR THE PERIOD	**18.6**	**0.1**	**18.7**

Impact on the Half year Condensed Consolidated Statement of Financial Position

	Reported Unaudited 30 June 2017 £m	IFRS15 Restatement £m	**Restated Unaudited 30 June 2017 £m**
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	9.4	-	9.4
Intangible assets	146.9	-	146.9
Deferred income tax	6.9		6.9
Contract fulfilment costs	-	0.8	0.8
Rent Deposits	2.0	-	2.0
	165.2	0.8	166.0
CURRENT ASSETS			
Trade and other receivables	76.6	3.1	79.7
Corporation tax	3.2	-	3.2
Cash and cash equivalents	26.1	-	26.1
Assets held for sale	-	-	-
	105.9	3.1	109.0
TOTAL ASSETS	271.1	3.9	275.0
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	(76.5)	0.3	(76.2)
Current tax liabilities	(9.6)	-	(9.6)
Provisions	(1.7)	-	(1.7)
Liabilities held for sale	-	-	-
	(87.8)	0.3	(87.5)
NON CURRENT LIABILITIES			
Other payables	(1.6)	-	(1.6)
Loans and overdraft	-	-	-
Deferred tax liability	(0.3)	(1.0)	(1.3)
Provisions	(2.1)	-	(2.1)
	(4.0)	(1.0)	(5.0)
TOTAL LIABILITIES	(91.8)	(0.7)	(92.5)
NET ASSETS	179.3	3.2	182.5
EQUITY			
Share capital	0.8	-	0.8
Share premium	99.8	-	99.8
Retained earnings	54.4	3.2	57.6
Translation reserve	24.3	-	24.3
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	179.3	3.2	182.5

Impact on the Half year Condensed Consolidated Statement of Cash Flows

As a result of the adoption of IFRS 15, certain reclassifications are required in relation to the recognition of contract fulfilment assets and restated the trade and other receivables account recorded in the balance sheet. Movements in the operating cash flow reflect the relevant cash and non-cash movements in reclassified line items. There has been no change in the net cash generated from operations as a result of these reclassifications or restatement of these balance sheet accounts.

Impact on the Consolidated Statement of Changes in Equity

- Consolidated statement of changes in equity as at 1 January 2017: recognition of the restated retained earnings figure as presented in the restated consolidated balance sheet as at this date.

- Consolidated statement of changes in equity as at 30 June 2017: recognition of the restated profit for the period ended 30 June 2017 as presented in the restated consolidated income statement for this year.

- Consolidated statement of changes in equity as at 30 June 2017: recognition of the restated profit for the period ended 31 December 2017 as presented in the restated consolidated income statement for this year.

Impact on the Half year Condensed Consolidated Statement of Comprehensive Income

No reconciliation of the restated consolidated statement of comprehensive income is presented as the only changes to this primary statement for the relevant period presented are as follows:

- Consolidated statement of comprehensive income is the recognition of the restated retained profit figure for the period ended 30 June 2017 as presented in the consolidated income statement.

Appendix - Key performance indicators

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

During the period, the Board has amended its KPIs as follows:

- The Board has reassessed its view of the most appropriate profit performance measure in the period. The Board have concluded that interest costs arising from acquisition funding decisions should be excluded and hence Adjusted EBITA and margin is the most appropriate profit measure for review. Specifically, this profit measure also excludes the impact of exceptional items, acquisition related amortisation and profits or losses arising on the sale of discontinued businesses. Such items arise from events which are exceptional by their incidence or size, and while they may generate substantial income statement amounts, do not relate to ongoing operational performance that underpins long term value generation.

  The Board has updated its calculation of ARR to reflect the adoption of IFRS15. The Group has included a new KPI, ARCV, to include the impact of term contracts on recurring cash flows.

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

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

- Technology Annual Recurring Revenue (ARR): Annual recurring revenue arising from customer contracts in force at the period end and includes SaaS, support and maintenance, and hosting revenue streams. Annual Recurring Revenue current and prior year amounts are all translated at 30 June 2018 foreign exchange rates. Following the introduction of IFRS15, the calculation of this KPI has been adjusted to recognise that the licence element of term licences are now booked on delivery rather than over the contract period.
- Technology Annual Recurring Contract Value (ARCV): Annual recurring value of customer commitments arising from contracts in force at the period end. These include term, SaaS, support and maintenance, and hosting cash flows. Annual recurring contract value current and prior year amounts are all translated at 30 June 2018 foreign exchange rates.
- Language Services Repeat Revenue Rate (RRR): Current year Language Services revenue earned from prior year customers as a percentage of current year Language Services revenue; the difference between RRR and total revenue is current year Language Services revenue from new customers
- Premium revenue: revenue from Life Sciences and Marketing Solutions;
- Upsell and cross-sell deals: number of incremental sales of new and existing products to existing customers
- Wins in Life Sciences, Marketing solutions and Machine Translation: the number of new contract wins in the period.
- Linguistic utilisation (FY average): the percentage of time in house linguists spent on billable work across the financial period
- Linguistic utilisation (June exit rate): the percentage of time in house linguists spent on billable work in June

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

- Constant currency amounts represent prior year monthly results from foreign operations retranslated at their respective 2018 monthly foreign exchange rates.

Responsibility Statement by the Management Board

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Half year Financial Reporting as adopted by the EU;

- the Half year management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board

Adolfo Hernandez
Chief Executive Officer

Xenia Walters
Chief Financial Officer

3 August 2018

INDEPENDENT REVIEW REPORT TO SDL PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which is comprised of the Half year Condensed Consolidated Income Statement, Half year Condensed Consolidated Statement of Comprehensive Income, Half year Condensed Consolidated Statement of Financial Position, Half year Condensed Consolidated Statement of Changes in Equity, Half year Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 *Half year Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Half year Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of Half year financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Simon Haydn-Jones

for and on behalf of KPMG LLP

Chartered Accountants
Arlington Business Park
Reading
RG7 4SD

6 August 2018