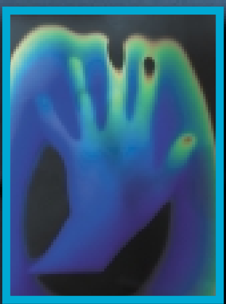
SOPHEON 2000



sopheon

The Knowledge To Compete®

ANNUAL REPORT

"Sopheon's mission is to give our clients the power to more effectively create, capture, share and use knowledge – to compete."

contents

Group Profile

Sopheon is a leading international provider of information and knowledge solutions that enable companies to access internal and external information more efficiently and to turn it into the knowledge to compete. Sopheon's experience in integrating information process and content is the foundation for a combination of pre-loaded, industry-specific software applications, expert services and specialized content. Its comprehensive solutions can enhance business processes ranging from product development and customer relationship management to R&D and quality management. Sopheon has operating bases in the United Kingdom, the Netherlands and the United States. Its clients are companies in the life sciences, high tech and healthcare industry sectors, and include nearly half of the technology-driven companies on the Fortune 500.

Statement from the Chairman and Chief Executive Officer

Introduction

The year 2000 was eventful for Sopheon, with substantial progress made towards our objective of becoming a major global company in the emerging knowledge management market. During the first half year, AppliedNet, acquired in late November 1999, was successfully integrated into the group. In early March, the proposed acquisition of Teltech Resource Network Corporation ("Teltech") was announced; this transaction was completed on 15 September 2000 following filing of Sopheon's registration statement with the Securities Exchange Commission at the end of August.

In the last fifteen months Sopheon has developed beyond recognition. From a small research and development business in late 1999 with a base in Amsterdam, 40 people and revenues under £1m, Sopheon ended the year 2000 with significant operations in the UK, the Netherlands and Minnesota and Colorado in the USA, 250 staff and a pro-forma turnover of £15.2m for 2000.

Results and Finance

In line with revised expectations, Sopheon's consolidated revenues for 2000 showed a five-fold increase over 1999 rising from £1.5m to £7.8m. This included a contribution of £3.2m from Teltech for the three and a half months after completion of the acquisition. Our consolidated EBITDA losses increased from £1.7m to £6.7m, reflecting very significant investment in product development, sales and marketing and the implementation capability required to get our solutions rapidly accepted in the market. On a pro-forma basis, revenue stood at £15.2m and EBITDA was a loss of £8.4m.

Close on the heels of our £8m acquisition of AppliedNet and the associated £8m fundraising in November 1999, in March 2000 £20m was raised through the placing of 2.6m shares to support the proposed acquisition of Teltech. The total cost recorded for the acquisition of Teltech was £26m in cash and shares.

With the rapid increase in our critical mass, our customer base and the geographic reach of our business activities, we are now a leading provider of content, research and on-demand expertise. This new dimension provides a stable revenue stream based on outsourcing and subscription models for information services. We would have hoped for even more substantial development within the business during 2000. However, as indicated in previous announcements, as a consequence of softness in the application development and consulting markets together with product and commercial integration delays arising from the extended completion of the Teltech acquisition, 2000 pro-forma growth was restricted. Significantly, the information services business acquired with Teltech (now trading as Sopheon-Teltech) continued to give strong recurring revenue, underlining the value of this acquired business.

On the back of our corporate developments we have created our integrated software-services-content strategy, described below in the Business Development section, building on the strengths of our component businesses and concentrating on clear market opportunities for our combined solutions. The first products arising from our investment effort are Accolade for new product development and our new portal Intota.com which provides online access to Sopheon-Teltech's unique expert network.

Looking forward, 2001 will clearly be a significant year for Sopheon in terms of the growth we plan to drive from our recently combined organization. In line with sound business practice we are taking active steps to manage our cost base and are looking to strengthen our balance sheet.

Business Development

Our strategy is to develop software applications integrated with specialized content and expert services, to help organizations manage specific knowledge-intensive business processes. In practical terms this means:

- Customers require business solutions to business problems, not technology for its own sake. This realization has driven us to develop applications that map our customers' processes and information in a structured way with control over terminology and search.

- Professionals are looking for tools that not only automate and leverage the knowledge and processes they have within their organizations, but also incorporate relevant literature, research or expertise from outside their organization. Our research analysts, our network of independent leading experts, and our information and research portals meet this need.

- Enterprise-level, business-critical applications need both strategic and IT consulting skills to facilitate sale and implementation. Our teams of knowledge management and integration experts on both sides of the Atlantic serve this requirement.

Bringing together these three elements is what makes Sopheon unique. Our new integrated product, Accolade, is the first example of this potential, built for the automation of New Product Development (NPD). Since the late 1980's – thanks largely to the development of the Stage-Gate methodology authored by our business partners at the Product Development Institute (PDI) and used by 60% of North American manufacturers, the NPD process has benefited from structure and formalization; the next stage of development relates to automation.

Accolade embodies the PDI process. It builds in best practices, benchmarks and research portals, and can be mapped to, and integrated with, an organization's existing infrastructure. We believe Accolade will increase speed to market, focus effort on winning products, and maximize use of distributed resources – in short, it should have a significant return-on-investment impact for customers. The market response is encouraging. Since announcing the launch of Accolade in October 2000 at the premier NPD exhibition in New Orleans, we have signed Pennzoil, Cargill and Sabic as launching customers.

In June 2000, our research portal Teltech.com was awarded CIO magazine's prestigious international Web Business 50/50 award as a premier online site. Version 2 was released in April 2001. Recently we have also launched Intota.com, a second-generation portal that delivers our expert network as an online resource, allowing customers to find a specialist, and engage him/her on an assignment through the portal. To date, Sopheon has signed syndication agreements with eFunda.com, Yet2.com, enviroXchange.com, BioSpace.com, Northern Light, GlobalSpec, and FabricatorMarket.com. Traffic is starting to build on the Intota website and we have a number of additional syndication agreements in the pipeline.

Hewlett-Packard has appointed Sopheon its preferred provider of knowledge management and business process solutions. This significant global relationship will drive a program of joint marketing activities for our products and services.

Our sales and marketing efforts continue to gather pace, Sopheon is participating in conferences and trade shows in 2001, and making keynote presentations at seven of these.

Product Development

Our core technical capabilities in content creation, terminology management and advanced search are key to the successful development of business solutions that effectively support knowledge-intensive business processes. Increasingly, we can build applications on scaleable technology platforms to provide solutions in a variety of customizable forms.

For example, Accolade will be available as either an enterprise solution, which would be resident inside a customer's firewall, or as a secure online product accessible via the emerging ASP mechanism. New versions of our research portals will incorporate content capture and enhanced terminology management, and will make available transaction based payment mechanisms on the back of our Intota developments. Following customer demand, we extended our healthcare offering with an automated agent that reads and forwards relevant information to support evidence-based medicine. In these ways Sopheon is ensuring that its technology is capable of meeting the increasingly sophisticated requirements of its customers as they adapt to the growing demands of a global e-business economy.

We are also seeing an expanding range of opportunities to create more focused variants of Accolade for specific market sectors. The most important of these sectors is Life Sciences, which we expect to approach with more speed after we take on the Aventis team referred to ahead.

Acquisition Strategy

Our acquisitions of Lessenger and AppliedNet signalled our intent to move Sopheon decisively towards commercial maturity. Last year's acquisition of Teltech in the USA was our most substantial to date. It brought us a mature organization with strong management and over 100 professionals, a customer base that includes half of the technology-driven Fortune 500 companies, a substantial revenue base with a strong recurring element, and complementary technology in the form of the Teltech.com portal and related taxonomy structures. This together with our existing base in Denver gave us a firm footprint into the North American market, which we are building upon.

In line with our objectives of developing our commercial focus and achieving global reach, we have continued to look for mature businesses to partner with or, where the circumstances and strategic fit are compelling, to acquire. As announced, we have agreed in principle to purchase a profitable German business, currently a division of the Aventis Group, in an all-paper transaction with a significant profit driven earn-out element. The major attractions of this business to Sopheon are its synergistic product and service offerings, an impressive team of people rooted in the Life Sciences who should accelerate Sopheon's planned penetration of that sector, its relationship with Aventis and other substantial companies, its annual revenues of over £6m, and a balance sheet that will provide sufficient strength and working capital for an independent future outside the Aventis group.

Board of directors and executive management team

Last year we divided our management structure into a Sopheon plc Board with at least half its directors being non-executive, and an executive management board responsible for operations.

It gave me great pleasure last year to announce the appointment of Andy Michuda of Teltech as our CEO and as an executive director of Sopheon plc. We have been delighted by the energy and vision Andy has brought to the role. As previously announced, we have a great team of people leading our organization on both sides of the Atlantic. Our only gap was in the marketing area, which we have filled with the appointment of Chris Hawver as our Chief Marketing Officer. Chris is a respected software executive with a successful track record in business and channel development for international information technology businesses and channel development including Achieve Healthcare, Medical Documenting Systems and Data General.

Most recently, we announced the appointment of Bernard Al, former CEO of Wolters Kluwer Netherlands as a non-executive director. Bernard brings invaluable experience and perspective on the information services market and has a science and linguistics background which is a perfect match for Sopheon.

Outlook

With our principal strategies in implementation and the recently announced further acquisition, I believe that 2001 will be another year of substantial progress toward our goal of becoming a profitable international company. With an expanding customer base on both sides of the Atlantic and a product and service offering that we believe has a significant "first to market" advantage, we have confidence that we are well positioned for considerable growth in a rapidly developing market.

Given the early success we have experienced with Accolade and the strong pipeline we are building for this new product, we are planning for a significant transition in growth and revenue mix in the second half of 2001. In the meanwhile we are continuing to maintain emphasis on our component businesses, both in terms of their individual performance and with respect to positioning them effectively for the anticipated pull-through from Accolade implementations.

The path before us is a challenging one, given the indication of a potential global economic slowdown. Our prospects and customers are dealing with many of the same influences and are looking for ways to reduce cost and accelerate speed to market to compete more effectively. Our products and services deliver rapid return on investment; they automate knowledge-intensive processes and deliver relevant content effectively and economically. They are well positioned to benefit from this environment.

Barry Mence
Executive Chairman

Andy Michuda
Chief Executive Officer

11 May 2001

Market and Product Overview

Information and Knowledge Today

In the race to get ahead, knowledge has become the great equalizer. The winner simply finds ways to use internal and external knowledge better. The corporate enterprise requires information to achieve and maintain competitive advantage. But in many cases, today's companies struggle with information overload and resultant inability to access critical information when it's needed.

Corporate knowledge workers are deluged each day with information from email, their peers, intranets and other internal sources. Information from external sources adds to the information excess. More generally, knowledge workers are bombarded with information from the Internet, suppliers and customers. The fact is, today's knowledge workers receive more information in one month's time (via email, post, industry reports, company communications and so on), than their grandparents received in a lifetime.

Sopheon understands that knowledge and information are essential to the success of any business. We also know the challenges companies face in creating, capturing, using and sharing information. This is particularly true when it comes to supporting knowledge-intensive business process such as research and development and healthcare protocol management.

"In our environment, time is precious - both staff time and time to market. We find Sopheon to be a great tool to leverage our time."

Tim Alho, Manager
Snap-On, Inc.

Our History

The company began in 1993 as Holland-based PolyDoc. Building on unique competencies in linguistics and language management, Sopheon created software applications that allowed organizations to capture knowledge through structured authoring tools, terminology management and thesauri. This technology was focused on specific processes such as hospital protocol management and the sharing of quality standards.

In November of 1999, Sopheon added to its knowledge harvesting and content dissemination competencies by acquiring AppliedNet, a leading UK supplier of knowledge management solutions and products with particular skills in search and portal technologies. As well as extending the intellectual property of the group, this acquisition brought real strength in implementation services and significantly expanded Sopheon's market presence in the UK.

With innovative, commercially promising software tools in place, Sopheon next looked for an opportunity to gain a foothold in the U.S. market and to integrate content into its solutions. In September 2000, Sopheon completed the acquisition of Teltech Resource Network Corporation, a leading U.S. knowledge management and research services organization. With a 16-year history, Teltech immediately gave Sopheon a diversified, blue chip U.S. client base.

Investing in Solutions for Knowledge-Intensive Business Processes

Based on its experience in structuring, managing and delivering information, Sopheon is uniquely able to provide solutions that integrate internal and external information. Sopheon's experience is the foundation for a powerful combination of software applications, expert services and specialized content focused on specific, knowledge-intensive business process for clearly identified vertical applications.

Content-loaded, software applications. Sopheon's process and content expertise is embodied in its software applications. Unlike other knowledge management software, Sopheon's software has industry and process-specific content built in. This differentiating concept was first introduced through Sopheon's Qualiflow system that enables hospitals and healthcare organizations to create, maintain and publish medical protocols and quality documents. More recently, it was delivered through the introduction of Sopheon's Accolade solution for new product development. Sopheon's software applications include:

"Sopheon has helped us to give patients the very best care. Their solution enables our medical and nursing staff to access clinical protocols easily and quickly."

Dr. Jan Carpay, Chairman of the Management Board and CEO,
Academic Hospital, Maastricht

Structured Authoring that provides the framework for capturing, organizing and publishing content based on predefined categories and corresponding terminology.

Terminology Management acts as a central function for harmonizing, storing and maintaining terminology for specific business processes. It offers interactive navigation of terminology relationships, glossaries and dictionaries.

Decision Support Facilitation that provides the framework for automating and streamlining knowledge-intensive business processes. It is a flexible, web-based tool that models an organization's existing process and integrates research services to support and inform process decisions.

Once installed, Sopheon software builds a knowledge base by collecting information from internal and external sources. Captured information is filtered, categorized and restructured for easy, time-efficient access. The software also allows for publishing of usable knowledge. Terminology is extracted from authored documents and marked to the glossary where corporate knowledge workers can explore the context for terms.

"A Sopheon expert provided excellent assistance to our company in the area of electronic circuit board manufacturing and plating. His knowledge, experience and willingness to go the extra mile helped us overcome a critical electrical contact problem."

David Allen, Engineer
Lexmark International

Expert services. Sopheon expert knowledge and integration management consultants listen to, research and analyze an organization's needs and then design, implement and support tailored solutions to that organization's specific business process requirements.

Using our full complement of software applications, best-practice tools and content resources, Sopheon consultants work with an organization to design knowledge solutions that simplify and streamline a business process. Sopheon excels at mapping process and content architecture and creating content structures that enable precise, easy transfer and retrieval of relevant knowledge and information. Our knowledge integration planning includes recommendations for systems maintenance, content management procedures, impact measurement processes and more. Sopheon consultants assist with the installation of the solutions we develop and their integration into the client's existing systems infrastructure. With a wealth of experience in the implementation of search engines, content management software and other tools for filtering and structuring content, they regularly design and build internal and external portals and other knowledge management applications. Sopheon also applies its experience and proven practices to address organizational and cultural factors that might otherwise impede successful adoption of a solution.

"Sopheon's expertise in content management technology played a part in building FT.com into the world's leading global business portal."

Paul Waddington, Marketing Services Director
FT.com

Sopheon supplies its clients with market, competitive and technical intelligence. Through Sopheon's services, organizations seeking quick answers to everyday questions or complex market, competitive and technical analyses can access thousands of technical and industry authorities, researchers and analysts representing virtually every facet of science and technology. Sopheon knowledge and research analysts provide personalized service to sort out specific client research needs, deliver custom, in-depth research projects, conduct research, and synthesize, analyze and deliver findings. Backed by tens of thousands of primary and secondary sources around the globe, as well as by leading-edge technology and methodologies, these experts are uniquely positioned to enable corporations to innovate and solve problems faster than the competition.

"Access to Sopheon's experts is like having an unlimited staff to keep me abreast of current and new technologies and to act as sounding boards for discussions in areas that fall outside my area of expertise."

William Ryszytiwskyj, Development Associate
Corning, Inc.

Specialized content. With 16 years of experience, Sopheon has strong, proven competencies in the development of content to support the creation and application of knowledge. Sopheon has created large repositories of reusable technical and business information. Its software applications come preloaded with this content, enabling fast deployment of highly viable, fully customized solutions. Sopheon's specialized content includes:

Teltech.com - Research and Knowledge Portal. Teltech.com serves as a gateway to the subscription-based research services offered by Sopheon. This state-of-the-art, do-it-yourself research tool blends the speed and economy of a powerful portal with the skills and experience of Sopheon's unmatched research staff. Recognized by CIO and R&D magazines as a best-of-breed research platform, Teltech.com integrates high-value content from the Internet and fee-based databases to provide one-stop access to technology, market and competitive intelligence. Designed specifically for technical and business professionals, Sopheon's portals reduce unproductive Internet search time by more than 50 percent.

In addition to serving as a comprehensive gateway to information outside a company's walls, Sopheon's portal offering can also be configured to provide integrated access to internal information and expertise. The solution can be specifically tailored to support knowledge-intensive business processes such as product development, merger and acquisition procedures, strategic business planning and technology portfolio management.

"Sopheon's research portal for Armstrong is a state-of-the-art way for our employees to find answers to business and technical questions. It blends the speed and economy of a 'search-on-your-own,' Web-based portal with the skills and know-how of the Sopheon research staff and network of experts."

Jo Tyler, Vice President of Organizational Development
Armstrong

Intota.com - Sopheon's Online Expert Resource. Intota.com provides online, expert knowledge services created specifically to serve technical and scientific business-to-business markets. Intota helps professionals get answers they need quickly and efficiently by providing access to leading authorities in virtually every area of science and technology. The Intota service is transaction-based, available on a "pay as you need" basis via credit card, making the service cost-effective and efficient for a wide audience of users. Traffic to the site is promoted through co-marketing and co-branding relationships with a growing number of strategic affiliates. During 2001, Intota will be rebranded and fully integrated into the Teltech.com offering.

Thesaural system. Sopheon's dynamic thesaural system covers more than 30,000 areas of science and technology. Created from real business subjects and issues, this content structure grows daily based on usage.

Library of taxonomies. The value derived from knowledge applications depends largely upon how quickly and efficiently an organization can use them. Sopheon has developed an expansive library of content taxonomies, pre-established content structures organized to expedite the retrieval of relevant information.

Industry-specific guidelines and standard operating procedures (SOP's). Sopheon has created and captured numerous guidelines and SOP's that are business-critical to specific industry sectors. Sopheon embeds this content in applications for these sectors, helping organizations strengthen risk management and reduce liability.

"By working with Sopheon, our scientists have a much clearer perspective of market and scientific trends."

Adrian Dale, Former Head of Knowledge Management
Unilever

Alliance Strategies

To quickly capture maximum market share within an industry sector, Sopheon believes it is necessary to align with companies having an established presence. Teaming with companies that provide complementary products and services will allow Sopheon to meet client demands and more rapidly deliver integrated solutions within specific markets.

Sopheon is pursuing alliances with organizations supplying complementary products and services. Initial alliances include companies such as the Product Development Institute, Northern Light, enviroXchange, BioSpace.com, yet2.com, Montreal Informatica and Hewlett Packard.

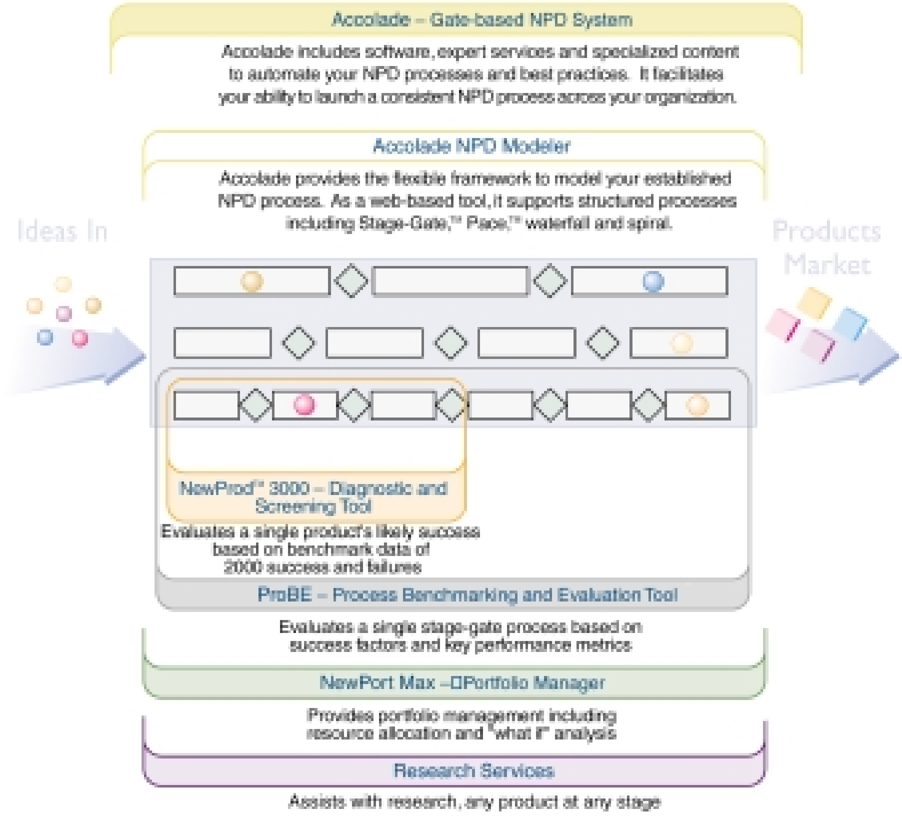
Vertical Software Solutions

Sopheon sees an increasing number of opportunities to create more focused variants of our solutions within specific vertical markets. These solutions will integrate software, expert services and specialized content to support strategic decision-making and satisfy the information needs of the knowledge worker contributing to the business process.

Sopheon Accolade for New Product Development

An example of the integrated Sopheon vision is embodied in our Accolade solution for new product development (NPD). Sopheon has entered into an exclusive partnership with the Product Development Institute (PDI) founded by Drs. Robert Cooper and Scott Edgett, authors of the Stage-Gate product development methodology, to develop Sopheon Accolade for NPD. In 1999, excluding government spending, companies spent nearly £500 billion globally on scientific research and developing new products (Industry Standard: 179, November 13, 2000. ISSN: 1098-9196). Recent studies show that nearly 50 percent of all product development resources are wasted on projects that are losers...while top companies only spend 20 percent on losers. (Booz, Allen, Hamilton). Companies with integrated development grow 50 percent faster than those with only project management expertise. Sixty-seven percent of companies with integrated development average 10 percent or higher profitability than average companies. (Performance Measurement Group)

Sopheon Accolade integrates application software, expert services and specialized content to improve a company's ability to deliver new products more effectively to the market. Accolade converts PDI's proven Stage-Gate system from paper to computer and stores all relevant project data in a central repository for viewing.



Accolade provides flexible, web-based software that models an organization's existing new product development process. It integrates research services to support and inform NPD decisions from concept to launch. Through these services Sopheon provides access to knowledge analysts and leading experts who assess markets, review trends and evaluate product concepts. Sopheon experts map Accolade to the client's internal process and then integrate it into existing systems infrastructures.

"With Accolade, Sopheon has raised the bar on what can be done to manage the product development process, offering a way to accelerate it, cut costs and help focus resources on winning products."

Ahmed Alim, Senior Vice President of Research and Development and Chief Technology Officer
Pennzoil-Quaker State Company

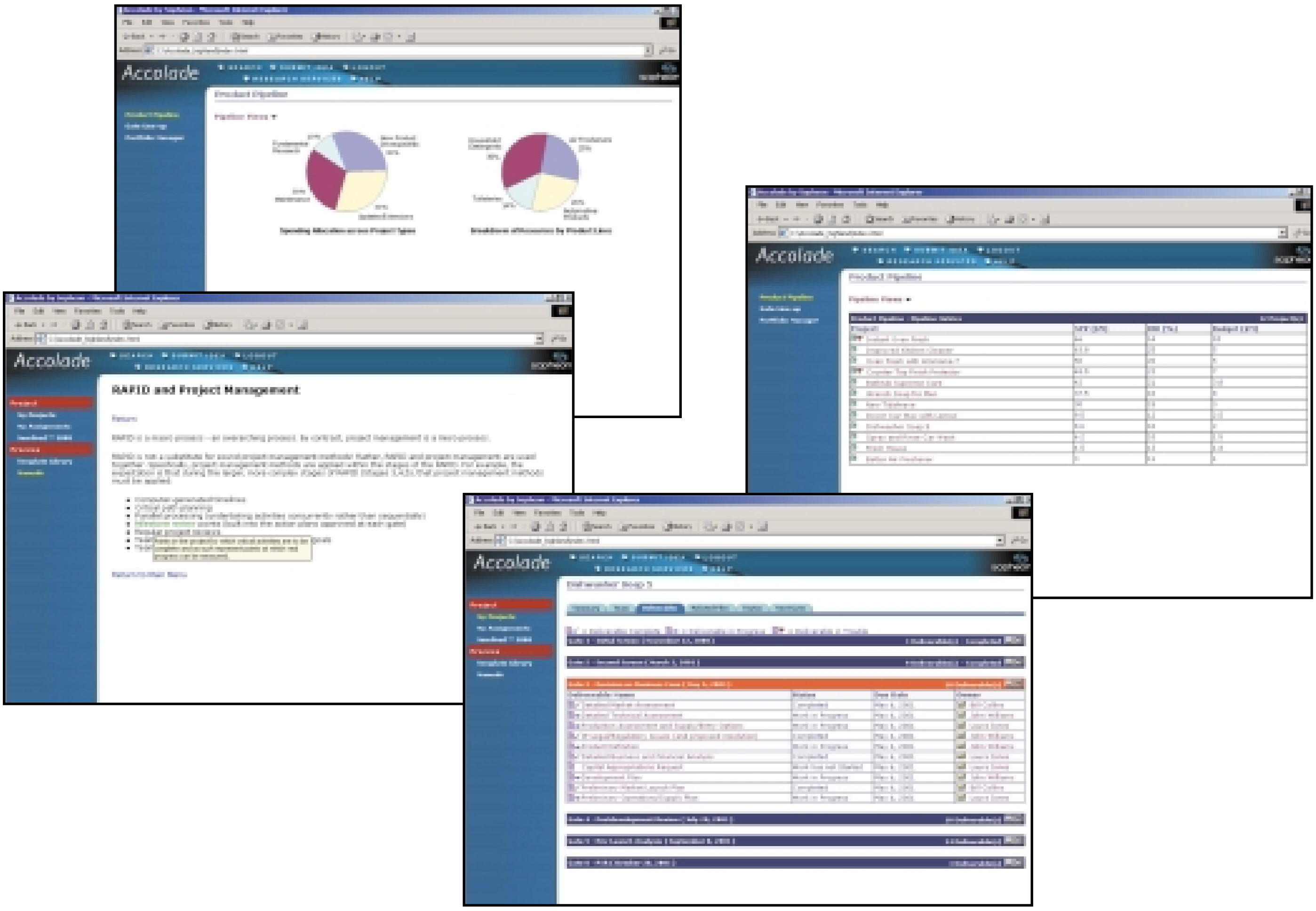
Benefits of Sopheon Accolade

- **Increases product launch success.** Accolade integrates research to help the client make informed process stage and gate decisions, benchmark progress and invest in products that will win in the marketplace.

- **Saves time managing portfolio activities.** Accolade's online dashboard allows client decision-makers to quickly assess their organization's complete portfolio, including a project's status within their process.

- **Automates the NPD process.** Accolade provides a flexible framework to accommodate the NPD process already operating within the client organization. As a web-based tool, it supports virtually any structured process including Stage-Gate™, Pace™, waterfall and spiral.

- **Accelerates time to market.** Accolade supports critical decision-making within each process stage and gate, so the adopting organization can make fast, informed decisions and spend time on products that can win in the marketplace.



- **Enhances quality of execution.** Accolade manages all related process activities to make sure deadlines are met. It also electronically monitors process adherence and consistent execution of each step as a measure of accountability for the process deliverables.

- **Validates product development decisions.** Accolade integrates a full range of research services, including a custom research portal that supplies market, competitor and technology intelligence on demand to support the client's new product initiatives.

- **Reduces NPD spending.** Accolade captures project learnings, helping to avoid duplication of work effort, and repetition of developmental mistakes, as well as strengthen processes and build intellectual property for use in future NPD efforts.

- **Maximizes portfolio value.** Accolade allows the client to monitor, prioritize and allocate resources appropriate to projects, and ensure that projects are aligned with the latest business plans or changing market conditions. The solution's central database of key process metrics lets the adopting organization instantaneously analyze its portfolio.

- **Improves cycle time and process adherence.** Accolade organizes predefined project deliverables and activities so users can monitor their success at each decision.

- **Leverages product development experience.** Accolade is preloaded with Cooper & Edgett best-practice NPD projects and processes content, so users benefit from the expertise of leading NPD authorities.

- **Advances project team communication.** With Accolade, all product development team members have a clear understanding of their roles, responsibilities and actions within the NPD process, resulting in enhanced project collaboration.

- **Decreases time spent reporting project status.** Accolade collects critical information throughout the project, providing consistent formats for fast, easy generation of project status reports and presentations. It also supports detailed project planning through an interface to software such as Microsoft Project®.

Directors and Advisers

Directors	Barry K. Mence, Andrew Michuda, Arif Karimjee ACA Stuart A. Silcock FCA Joseph Shuster Bernard Al	Executive Chairman Chief Executive Officer Finance Director Non-executive Director Non-executive Director Non-executive Director
Secretary	Arif Karimjee	
Registered office	Stirling House, Surrey Research Park Guildford Surrey GU2 5RF	
Registered number	Registered in England and Wales: 3217859	
Auditors	Ernst & Young Apex Plaza Reading RG1 1YE	
Principal bankers	Silicon Valley Bank 3003 Tasman Drive Santa Clara California 95054 United States	Lloyds TSB Bank Plc 77 High Street, Southend-on-Sea Essex SS1 1HT
Solicitors	Hammond Suddards Edge 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2400 IDS Center, 80 South Eighth Street Minneapolis Minnesota 55402, United States
	Nauta Dutilh Prinses Irenestraat 59 1077 WV Amsterdam The Netherlands	
AIM Nominated Adviser and Broker	HSBC Investment Bank plc Thames Exchange 10 Queen Street Place London EC4R 1BL	
Euronext Paying Agent	Kempen & Co NV Herengracht 182 1001 GJ Amsterdam The Netherlands	
Registrars	Capita IRG Plc Bourne House, 34 Beckenham Road Beckenham Kent BR3 4TU	
Financial PR Consultants	Buchanan Communications Ltd 107 Cheapside London EV2V 6DN	Citigate First Financial BV Assumburg 152A 1081 GC Amsterdam The Netherlands

Report On Directors' Remuneration

The remuneration committee of Sopheon plc is responsible for oversight of the contract terms, remuneration and other benefits for executive directors, including performance related bonus schemes. The committee comprises the non-executive directors together with Barry Mence. The committee makes recommendations to the board, within agreed parameters, on an overall remuneration package for executive directors and other senior executives in order to attract, retain and motivate high quality individuals capable of achieving the group's objectives. The package for each director consists of a basic salary, benefits and pension contributions, together with performance related bonuses and share options for certain directors on a case by case basis. Consideration is given to pay and employment policies elsewhere in the group, especially when considering annual salary increases. From time to time the remuneration committee may take advice from appropriate remuneration consultants.

Contracts

Service contracts between the company and the executive directors are terminable on 6 months' notice.

Fees for Non-executive Directors

The fees for non-executive directors are determined by the board. The non-executive directors are not involved in any discussions or decisions about their own remuneration.

Directors Remuneration

Set out below is a summary of the fees and emoluments received by all directors during the year, or (where applicable) period of office. Details of directors' interests in shares and options are set out in the Directors' Report.

	Salary and fees £	*Benefits £*	*Contributions to Pension £*	*Total 2000 £*	*Total 1999 £*
Executive directors					
B. K. Mence	107,428	3,128	3,600	114,156	82,164
A. Michuda (1)	40,212	1,394	668	42,274	-
A. Karimjee (2)	72,952	659	2,708	76,319	-
H. J. M. Rutten (3)	47,785	8,288	2,206	58,279	72,262
J. M. Macfarlane (3)	71,069	6,928	5,229	83,226	13,694
R.V. Maddocks (3)	66,883	9,982	5,001	81,866	101,007
E. R. E. I. Wiebenga (4)	2,403	728	111	3,242	40,450
Non-executive directors					
J. M. Shuster (1)	4,842	1,265	94	6,201	-
S. A. Silcock	28,949	-	-	28,949	31,818
M. J. Brooke (5)	12,000	-	-	12,000	1,000
H. Coltof (3)	2,931	-	-	2,931	6,200
	457,454	32,372	19,617	509,443	348,595

(1) Appointed on 18 September 2000
(2) Appointed on 1 February 2000
(3) Resigned on 18 September 2000
(4) Resigned on 1 February 2000
(5) Resigned on 8 January 2001
(6) Pension contributions are made to individual directors' personal pension schemes.

The emoluments of S. A. Silcock and M. J. Brooke are paid respectively to Lawfords Limited, of which Mr. Silcock is a director, and Coinshire Limited, of which Mr. Brooke is a director. Included in Mr Silcock's emoluments are fees of £10,949 paid to Lawfords Limited for professional services rendered by that firm.

Mr Michuda is eligible to participate in an incentive scheme established at the time of the acquisition of Teltech Resource Network Corporation whereby he will receive 41,666 Sopheon ordinary shares on 15 September 2001, the anniversary of the completion of the acquisition.

Directors' Report

Financial Results

The loss for the year ended 31 December 2000 before interest, tax, depreciation and amortization (LBITDA) was £6,655,000 (1999 - £1,654,000) on a turnover of £7,763,000 (1999 - £1,510,000). The result for the year both before and after taxation was a loss of £11,945,000 (1999 - £2,072 000). The directors do not propose to declare a dividend.

Principal Activities

The group's principal activities during the year continued to focus on the development and provision of knowledge management software, solutions and services. The acquisition of Teltech Resource Network Corporation ("Teltech"), now trading as Sopheon-Teltech, has significantly extended the scope of the business. In addition to widening the critical mass, customer base and geographic reach of the group's traditional activities, Sopheon-Teltech is a leading provider of content, research and on-demand expertise which has added a new dimension to Sopheon's offering and provides a stable revenue stream based on outsourcing and subscription models for information services.

Review of the Business

On a consolidated basis, Sopheon's revenues show a five-fold increase over 1999 rising from £1.5million to £7.8million. This includes a contribution of £3.2million from Sopheon-Teltech since acquisition. LBITDA losses have increased four-fold, reflecting the significant investment being made in product development, sales and marketing and the implementation capability that will be required to get our solutions rapidly accepted in the market. Early fruits of this investment are the Accolade software application for New Product Development (NPD), developed with the backing of PDI, the world's leading experts on NPD, and the new research portal Intota.com which provides on-line access to Sopheon-Teltech's unique expert network of leading specialists with expertise in more than 30,000 areas of science, technology and business.

In the last fifteen months the Sopheon group has changed beyond recognition. From a small research and development business in late 1999 with a base in Amsterdam and around 30 staff, through the acquisitions of AppliedNet and Teltech, Sopheon ended the year 2000 with significant operations in the UK, Netherlands, Minnesota and Colorado and in excess of 250 staff. This is reflected in revenues which have increased from £0.9m for the former PolyDoc business in 1999 to a pro-forma turnover (including the results of Teltech as though it had been included throughout the year) of £15.2m for 2000. The directors had hoped for even more substantial development within the business last year. However, the softer state of the application development and consulting markets started to bite in the second half of last year, compounded by the longer than expected buying cycles of our original healthcare market in the Netherlands. This, together with delays in the integration and development of our new combined strategy and products arising from the extended completion of the Teltech acquisition, restricted 2000 pro forma growth. While the uncertainty in the business environment has continued into early 2001, the board believes that Sopheon has entered the year with a combination of strategy, products and people that the market will find attractive.

The acquisition of Teltech was announced in March 2000 but was not completed until 15 September 2000, due to lengthy registration procedures with the US Securities and Exchange Commission. The total consideration recorded for the Teltech acquisition was £26million, comprising £11million in cash and acquisition costs, and £15million in equity (in the form of 2.1 million Sopheon shares and options to subscribe for a further 0.7 million Sopheon shares). The consideration for the Teltech acquisition is described in detail in Note 11.

Future Developments

Sopheon will continue its strategy of building content-loaded software solutions for specific vertical markets, and offering appropriate strategy, implementation and research services around and within the solution. Following the launch of Accolade for new product development in the manufacturing sector in October 2000, the next major product launch area for Accolade will be the life sciences market. This is a sector where the recently announced acquisition of the AIT division of Aventis will bring great strength, both in terms of customer relationships and the vertical expertise needed to build the solution for the life sciences market. Subject to due diligence procedures, we would expect the acquisition of AIT to complete in the summer of 2001.

Research & Development

The significant investment in research and development will continue with over 40 people devoted to our aggressive plans in this area. Our Chief Technology Officer, Paul Heller, is based in Denver, where our main software development is located. Complementing this central team of developers and reflecting the particular strengths of our acquired businesses, we have smaller groups as centers of excellence for search technology in Guildford, and for research portals in Minneapolis. Our pure research and design team in Maastricht remains in place under the direction of Huub Rutten.

Directors and their interests

The interests of the directors who held office at the end of the year in the share capital of the Company (all beneficially held except those marked with an asterisk (*), which are held as trustee), were as follows:

Director	*Share Options* *2000*	*1999*	*Ordinary Shares* *2000*	*1999*
B. K. Mence	-	-	8,696,457	8,337,800
A. Michuda (appointed on 18 September 2000)	209,703	-	189	-
A. Karimjee (appointed on 1 February 2000)	100,000	-	-	-
S.A. Silcock	-	-	181,383	192,450
S.A. Silcock*	-	-	98,077	107,010
M. J. Brooke (resigned on 8 January 2001)	-	-	691,724	691,724
J.M. Shuster (appointed on 18 September 2000)	44,974	-	76,186	-

Of the 8,696,457 ordinary shares mentioned above B. K. Mence beneficially owns and is the registered holder of 4,848,657 ordinary shares. He is, or his wife or children are, potential beneficiaries under trusts holding an aggregate of 3,847,800 ordinary shares, of which trusts directors of Lawfords Ltd., in the Isle of Man, are trustees and are registered as the holders of such shares. S.A. Silcock is a shareholder in Lawfords Ltd. At 31 December 2000 and 1999 Mr. Mence also held warrants to subscribe for 300,000 ordinary shares at 146p per share. The warrants expired unexercised on 31 March 2001. On 31 December 1999 Mr Mence held £523,640 5% Convertible Loan Stock, which was converted into 358,657 ordinary shares on 31 July 2000.

Since the year end, Bernard Al, who was appointed as a director on 8 January 2001, has acquired 25,000 Sopheon ordinary shares.

The following table provides summary information for each of the directors who held office during the year and who held options to subscribe for Sopheon ordinary shares. All options were granted without monetary consideration.

	Date of Grant	*Exercise price*	*At 31 December 1999*	*Granted during year*	*Exercised during year*	*At 31 December 2000*
A. Michuda (1)	15 September 2000	184p	-	187,600	-	187,600
A. Michuda (1)	15 September 2000	230p	-	7,846	-	7,846
A. Michuda (1)	15 September 2000	322p	-	12,501	-	12,501
A. Michuda (1)	15 September 2000	368p	-	1,756	-	1,756
A. Michuda	2 October 2000	427.5p	-	16,280	-	16,280
A. Karimjee (2)	22 November 1999	150p	100,000	-	-	100,000
J. Shuster (1)	15 September 2000	184p	-	24,779	-	24,779
J. Shuster (1)	15 September 2000	230p	-	1,502	-	1,502
J. Shuster (1)	15 September 2000	276p	-	1,502	-	1,502
J. Shuster (1)	15 September 2000	368p	-	17,191	-	17,191
J. Shuster	2 October 2000	427.5p	-	5,263	-	5,263
R.V. Maddocks (3)	8 August 1996	20p	400,000	-	(400,000)	Nil

(1) These options are fully vested options, which were granted to vendors as part of the acquisition of Teltech Resource Network Corporation.

(2) The vesting of Mr Karimjee's options is subject to agreed performance criteria.

(3) Mr Maddocks resigned as a director on 18 September 2000.

The mid-market price of Sopheon ordinary shares at 29 December 2000 was 160p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 155p to £17.62.

Save as disclosed above, and as detailed on page 19, no director (or member of his family) or connected persons within the meaning of Section 346 of the Companies Act 1985 has any interest, beneficial or non-beneficial, in the share capital of the company.

Substantial Shareholdings

The Directors are aware of the following persons who as at 11 May 2001 are interested directly or indirectly in three per cent or more of the company's issued ordinary shares:

Name	*No. of Ordinary Shares*	*% issued Ordinary Shares*
B. K. Mence (director)	8,696,457	22.5
J. M. Macfarlane	1,719,716	4.4

Mr Mence's interest represents direct beneficial holdings as well as those of his family.

Share Option Schemes

Details of options granted are shown in note 17.

Creditor Payment Policy and Practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2000, the group had an average of 60 days' purchases outstanding in trade creditors.

Derivatives and Other Financial Instruments

The group's principal financial instruments comprise bank loans, cash and short-term deposits. The main purpose of these financial instruments is to secure funds and manage cash flow for the group's operations. The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations. Details of financial instruments as required by FRS13 are disclosed in note 19. The disclosures exclude short term debtors and creditors.

It is, and has been throughout the period under review, the group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk as summarized below. The board reviews and agrees policies for managing each of these risks. These policies have remained unchanged during 1999 and 2000.

Interest rate risk

The group has overdraft facilities and lines of credit in UK Sterling, US Dollar and Dutch Guilder at floating rates of interest.

Where the group has significant cash resources available that are in excess of the short term needs of the business, such funds are maintained in sterling and are placed on short and medium term bank deposit at the best interest rate available.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts and bank loans. Short term flexibility is achieved by overdraft facilities and lines of credit.

Foreign currency risk

As a result of having significant operating units in the United States and the Netherlands, which give rise to short term creditors, debtors and cash balances in US Dollars and Dutch Guilders, the group's balance sheet can be affected by movements in the US Dollar/Sterling and Dutch Guilder/Sterling exchange rates.

Events since the balance sheet date

On 29 March 2001 the Company announced that it had signed a letter of intent to acquire the Technology and Information Services division ("AIT") of Aventis Research & Technologies, Frankfurt, Germany. Its activities are complementary to Sopheon's existing operations and will give a strong service and product presence in Germany and in the life sciences market, and a relationship with one of the world's leading pharmaceutical companies. Like Sopheon, AIT is focused on providing technology-based solutions that integrate software applications, expert services and specialized content to improve knowledge-intensive business processes.

Sopheon anticipates that the consideration for the proposed acquisition will comprise the issue of new ordinary shares to the vendor (subject to a twelve month lock-in period) with a value approximately equal to the net assets being acquired. At the time the transaction is completed, it is anticipated that AIT will have sufficient working capital for it to operate as an independent entity outside Aventis Research & Technologies. The consideration will also incorporate an earnout component, also in the form of Sopheon equity, linked to profits in 2001 through 2003.

AIT has annual revenues of DM 20 million (£6.5 million) and generates an operating profit. The transaction will be subject to completion of due diligence, execution of a definitive agreement, respective board and regulatory approvals, amongst other requirements.

On 2 May 2001 the Company announced that it granted options over Sopheon ordinary 5p shares to certain directors as part of a wider 2001 incentive award of up to 743,781 options to its staff. The options were granted at a price of 77.5p per ordinary share and in the case of staff and executive directors, the ultimate number of options granted depends on meeting certain performance criteria for 2001. As part of this award, Andrew Michuda (Chief Executive) was granted up to 77,162 options, Barry Mence (Chairman) up to 45,000 options, and Arif Karimjee (Chief Financial Officer) up to 25,000 options. In addition to the 2001 incentive grant, Bernard Al, who joined the board as a non-executive director earlier this year, was granted 25,000 options.

Auditors

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

Ernst & Young has stated that, during 2001, it intends to transfer its business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. If this happens, it is the current intention of the Directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

By the order of the Board
A. Karimjee
Secretary

11 May 2001

Statement of Directors' Responsibilities In Respect Of The Accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that year. In preparing those accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the company will continue in business;

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's Report To The Shareholders Of Sopheon plc

We have audited the accounts on pages 22 to 43 which have been prepared under the historical cost convention and the accounting policies set out on page 26.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the annual report. As described on page 20, this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 December 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Reading

11 May 2001

Group Profit And Loss Account For The Year Ended 31 December 2000

	Notes	Continuing Operations 2000 £'000	Acquisitions 2000 £'000	Total 2000 £'000	1999 £'000	Restated 1998 £'000
TURNOVER	2	4,573	3,190	7,763	1,510	891
Cost of sales		(3,281)	(2,121)	(5,402)	(983)	(608)
GROSS PROFIT		1,292	1,069	2,361	527	283
Sales and marketing expenses		(2,431)	(1,019)	(3,450)	(760)	(502)
Administrative expenses		(7,112)	(4,529)	(11,641)	(1,783)	(884)
OPERATING LOSS	3	(8,251)	(4,479)	(12,730)	(2,016)	(1,103)
Share of operating loss of associated undertaking				(76)	-	-
Interest receivable				950	62	13
Interest payable and similar charges				(89)	(118)	(52)
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION				(11,945)	(2,072)	(1,142)
Loss per share - basic and diluted (pence)	8			(33.4p)	(10.1p)	(6.1p)
LOSS ON AN EBITDA BASIS				(6,655)	(1,654)	(1,031)

EBITDA is defined in Note 1 to the Accounts on page 26.

GROUP STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2000

	2000 £'000	1999 £'000	Restated 1998 £'000
Loss on ordinary activities after taxation	(11,945)	(2,072)	(1,142)
Exchange difference on retranslation of net assets of subsidiary undertakings	100	(45)	47
Total recognized gains and losses relating to the year	(11,845)	(2,117)	(1,095)

Group Balance Sheet At 31 December 2000

	Notes	2000 £'000	1999 £'000
FIXED ASSETS			
Intangible assets	9	30,945	7,605
Tangible assets	10	2,387	386
Investments	11	260	-
		33,592	7,991
CURRENT ASSETS			
Debtors	12	4,610	1,362
Cash at bank and in hand	13	7,925	7,751
		12,535	9,113
CREDITORS: amounts falling due within one year	14	7,809	3,570
NET CURRENT ASSETS		4,726	5,543
TOTAL ASSETS LESS CURRENT LIABILITIES		38,318	13,534
CREDITORS: amounts falling due after more than one year	15	22	55
		38,296	13,479
CAPITAL AND RESERVES			
Called up share capital	17	4,816	4,491
Shares to be issued	18	630	10
Share premium account	18	43,320	10,020
Merger reserve	18	7,940	7,940
Other reserve	18	2,417	-
Profit and loss account	18	(20,827)	(8,982)
Shareholders' funds (all equity interests)		38,296	13,479

Approved by the Board on 11 May 2001

B. K. Mence
Director

A. Karimjee
Director

Company Balance Sheet At 31 December 2000

	Notes	2000 £'000	1999 £'000
FIXED ASSETS			
Investments	11	39,422	13,211
CURRENT ASSETS			
Debtors	12	14,545	4,216
Cash at bank and in hand		7,318	6,984
		21,863	11,200
CREDITORS: amounts falling due within one year	14	1,259	1,955
NET CURRENT ASSETS		20,604	9,245
TOTAL ASSETS LESS CURRENT LIABILITIES		60,026	22,456
CAPITAL AND RESERVES			
Called up share capital	17	4,816	4,491
Shares to be issued	18	630	10
Share premium account	18	43,320	10,020
Merger reserve	18	7,940	7,940
Other reserve	18	2,417	-
Profit and loss account	18	903	(5)
Shareholders' funds (all equity interests)		60,026	22,456

Approved by the Board on 11 May 2001

B. K. Mence
Director

A. Karimjee
Director

Group Statements Of Cash Flows For The Year Ended 31 December 2000

	Notes	2000 £'000	1999 £'000	1998 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	3	(8,793)	(1,278)	(946)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		950	62	13
Interest paid		(88)	(116)	(50)
Interest element of finance lease rental payments		(1)	(2)	(2)
		861	(56)	(39)
CAPITAL EXPENDITURE & FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets		(954)	(52)	(52)
ACQUISITIONS AND DISPOSALS				
Purchase of subsidiary undertaking		(11,962)	(179)	(95)
Net cash acquired with subsidiary undertaking		(155)	389	2
Purchase of investment in associated undertaking		(164)	-	-
		(12,281)	210	(93)
MANAGEMENT OF LIQUID RESOURCES				
(Increase) in short term deposits		(267)	(6,602)	(401)
NET CASH OUTFLOW BEFORE FINANCING		(21,434)	(7,778)	(1,531)
FINANCING				
Issues of ordinary share capital		20,222	8,265	110
New long-term loan		-	4	1,571
Repayment of long-term loans		(30)	-	(299)
Repayment of capital element of finance lease		(8)	(16)	(12)
		20,184	8,253	1,370
(DECREASE)/INCREASE IN CASH	13	(1,250)	475	(161)

1. ACCOUNTING POLICIES

Accounting Convention
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of Consolidation
The consolidated accounts include the results of the company and its subsidiary undertakings. The results of Teltech Resource Network Corporation have been included, using the acquisition method of accounting, since the date of acquisition, 15 September 2000.

Tangible Fixed Assets
Tangible fixed assets are stated at historical cost, less accumulated depreciation. The costs of developing portals used to deliver products and services are capitalized as tangible fixed assets in accordance with UITF29. Tangible fixed assets are depreciated on a straight line basis over their expected useful lives over the following periods.

Computer equipment	3 years
Fixtures and fittings	4 to 5 years
Internet portals	3 years

Research and Development
Research and development expenditure is written off as incurred. The cost of registering patents and trademarks are written off as incurred. Subsidies received from the European Union and other state agencies are credited to the profit and loss account over the period to which they relate.

Goodwill
Goodwill arising on consolidation is capitalized and amortized on a straight line basis over its estimated useful economic life, which in the case of AppliedNet Limited and Teltech Resource Network Corporation is 3 years. Goodwill is reviewed for impairment at the end of the first full financial year after acquisition and in other periods if events or changes in circumstances indicate that carrying values may not be recoverable. If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortized is taken into account in determining the profit or loss on sale or closure.

Foreign Currencies

Company
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Group
The assets and liabilities of the subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The profit and loss account is translated at the average rate of exchange. The exchange differences arising on the retranslation of subsidiary undertakings are, together with differences arising on the translation of long term intra-group funding loans which are not intended to be repaid in the foreseeable future, taken directly to reserves. All other differences are taken to the profit and loss account.

Long Term Contracts
Profit on long term contracts is taken as the work is carried out if the outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognized only when the customer has accepted them. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Pensions
Sopheon contributes to the personal pension arrangements of employees, the costs of which are charged in the profit and loss account as incurred.

Leasing
Assets held under finance leases, which are leases where substantially all risks and rewards of ownership of the assets have passed to the group are capitalized in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under financial leases are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged to the profit and loss account over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Ebitda
EBITDA represents earnings before interest, tax depreciation and amortization and also excludes non-recurring equity-based costs incurred in connection with acquisitions.

2. TURNOVER AND SEGMENTAL INFORMATION

Turnover (excluding valued added tax) represents the amounts derived from the group's principal activities which comprise (a) the design, development, production and marketing of knowledge management software and solutions together with associated implementation and consultancy services and (b) (following the acquisition of Teltech) the provision of information and research services. The group has operations in three geographical markets, the United States, the United Kingdom and the rest of Europe.

Analysis of turnover by area of activity

	2000	*1999*	*1998*
	£'000	*£'000*	*£'000*
Software and consultancy	4,912	1,510	891
Information and research services	2,851	-	-
	7,763	1,510	891

Analysis of operating loss and net assets by area of activity

	2000	*1999*	*Restated 1998*
	£'000	*£'000*	*£'000*
Software and consultancy	1,406	527	283
Information and research services	955	-	-
Gross profit	2,361	527	283
Sales and marketing expenses	(3,450)	(760)	(502)
Administrative expenses	(11,641)	(1,783)	(884)
Operating loss	(12,730)	(2,016)	(1,103)
Net assets			
Software and consultancy	8,338	8,067	707
Information and research services	22,640	-	-
Unallocated cash and loans at group level	7,318	5,412	(1,571)
	38,296	13,479	(864)

Analysis of turnover by geographical destination

	2000	*1999*	*Restated 1998*
	£'000	*£'000*	*£'000*
United Kingdom	2,965	693	166
Rest of Europe	1,339	777	722
North America	3,459	40	3
	7,763	1,510	891

Analysis of turnover and operating loss by geographical origin

	Operating loss			*Turnover*		
	2000	*1999*	*Restated 1998*	*2000*	*1999*	*1998*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
United Kingdom	4,934	346	-	3,942	636	-
Rest of Europe	1,735	1,414	1,103	500	874	891
United States of America	6,061	256	-	3,321	-	-
	12,730	2,016	1,103	7,763	1,510	891

Analysis of net assets by geographical origin

	2000	*1999*	*Restated 1998*
	£'000	*£'000*	*£'000*
United Kingdom	5,182	8,054	-
Rest of Europe	476	89	707
United States of America	25,320	(76)	-
Unallocated cash and loans at group level	7,318	5,412	(1,571)
	38,296	13,479	(864)

3. OPERATING LOSS

(a) This is stated after charging/(crediting):

	2000 £'000	1999 £'000	Restated 1998 £'000
Auditors' remuneration - audit services	67	34	20
Auditors' remuneration - non audit services	19	13	3
Research and development expenditure written off	3,321	878	815
Eureka subsidies	(78)	(315)	(304)
Foreign exchange (gains)/losses	(645)	16	(29)
Amortization of goodwill	5,561	323	-
Depreciation of owned assets	405	74	63
Depreciation of assets held under finance leases	4	9	9
Operating lease rentals - land and buildings	411	103	94
Operating lease rentals - equipment and vehicles	173	84	79

During 2000 £114,000 (1999 £64,000 and 1998 £Nil) was charged by the auditors in respect of work associated with due diligence and fund raising which has been capitalized or written off to share premium as appropriate.

(b) Reconciliation of operating loss to net cash outflow from operating activities

	2000 £'000	1999 £'000	1998 £'000
Operating loss	(12,730)	(2,016)	(1,103)
Depreciation	409	83	72
Amortization	5,561	323	-
(Increase)/decrease in debtors	(453)	(338)	9
Increase/(decrease) in creditors and provisions	(1,580)	670	76
Net cash outflow from operating activities	(8,793)	(1,278)	(946)

4. STAFF COSTS

	2000 *£'000*	*1999* *£'000*	*1998* *£'000*
Wages and salaries	6,834	1,231	857
Social security costs	579	124	74
Other pension costs	173	42	29
	7,586	1,397	960

The fees and emoluments of all directors were as follows:

	2000 *£'000*	*1999* *£'000*	*1998* *£'000*
Fees and emoluments	490	333	333
Pension contributions	19	15	15
	509	348	348

Pension contributions are to personal defined contribution schemes and have been made for eight directors who served during the year. The emoluments of the highest paid director were as follows:

	2000 *£'000*	*1999* *£'000*	*1998* *£'000*
Basic Salary	107	78	79
Benefits	3	16	16
Pension contributions to defined contribution scheme	4	7	7
Total	114	101	102

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

	2000 *Number*	*1999* *Number*	*1998* *Number*
Development and operations	79	26	21
Sales and management	71	14	10
	150	40	31

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2000 £'000	1999 £'000	1998 £'000
Bank loans and overdrafts	49	39	16
Convertible loan stock	39	78	34
Finance charges on finance leases	1	1	2
	89	118	52

6. TAXATION

There was no tax charge for 2000, 1999 or 1998. Tax losses are available for carry forward by the Group the amount of which is under discussion with the relevant authorities in the UK, US and the Netherlands. In accordance with the group's policy, no provision has been made for the potential deferred tax asset on these losses.

7. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company for the year ended 31 December 2000 was £908,000 (1999 - £nil and 1998 - £nil). Advantage has been taken of Section 230 of the Companies Act 1985 not to present a profit and loss account for the parent company.

8. LOSS PER ORDINARY SHARE

The calculation of basic loss per ordinary share is based on a loss of £11,945,000 (1999 - £2,072,000 and 1998 £1,142,000 as restated), and on 35,732,477 (1999 - 20,565,985 and 1998 - 18,730,633) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted loss per ordinary share are identical to those used for calculating the basic loss per ordinary share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of Financial Reporting Standard 14.

9. INTANGIBLE FIXED ASSETS

Group only

	Goodwill £'000
Cost	
At 1 January 2000	7,928
Additions	28,823
At 31 December 2000	36,751
Amortization	
At 1 January 2000	323
Provided during the year	5,483
At 31 December 2000	5,806
Net book value	
At 31December 2000	30,945
At 31December 1999	7,605

10. TANGIBLE FIXED ASSETS

Group only

	Computer Equipment £'000	*Furniture & Fittings £'000*	*Internet Portals £'000*	*Total £'000*
Cost				
At 1 January 2000	643	164	-	807
Acquired with subsidiary undertaking	794	112	640	1,546
Additions	562	168	224	954
Exchange adjustments	(40)	(6)	(44)	(90)
At 31 December 2000	1,959	438	820	3,217
Depreciation				
At 1 January 2000	344	77	-	421
Provided during the year	318	68	23	409
At 31 December 2000	662	145	23	830
Net book value				
At 31 December 2000	1,297	293	797	2,387
At 31 December 1999	299	87	-	386

The net book value of furniture and fittings above includes an amount of £9,000 (1999: £18,000) in respect of assets held under finance leases.

11. INVESTMENTS

Group

Investment in associated undertaking	*Share of net tangible assets £'000*	*Goodwill £'000*	*Total £'000*
At 1 January 2000	-	-	-
Addition at cost	174	236	410
Share of retained loss	(76)	-	(76)
Amortization of goodwill	-	(79)	(79)
Exchange difference	5	-	5
At 31 December 2000	103	157	260

In February 2000 the group acquired a 25% interest in Pro-GRAM BV, a joint venture with three leading Dutch teaching hospitals, involved in the provision of software solutions for the medical and healthcare market. The group has subscribed £164,000 in cash, and the balance of the £410,000 investment is included in creditors. Goodwill is being amortized over three years, in line with group policy.

Company

Investment in subsidiary undertakings	*£'000*
Cost	
At 1 January 2000	13,211
Additions at cost	26,211
At 31 December 2000	39,422

On 15 September 2000 the group completed the acquisition of Teltech Resource Network Corporation. The consideration for the entire share capital of Teltech Resource Network Corporation comprised $15,163,000 in cash (equivalent to £10,775,000 at the exchange rate prevailing on 15 September 2000), 2,094,105 ordinary shares of Sopheon plc and options to acquire 718,292 ordinary shares in Sopheon plc with an aggregate exercise price of £1,641,000, as well as attributed costs of £1,187,000. The market value of ordinary shares in Sopheon plc on 15 September 2000 was 565p. Accordingly, the total cost recorded in respect of the acquisition was £26,211,000. The value of the consideration has been calculated on the basis of the Sopheon share price of 565p and the exchange rate of £1=US$1.41 prevailing on the completion date of 15 September 2000, compared with the share price of 549p and exchange rate of £1=US$1.45 used to compute the consideration under the deal terms.

11. INVESTMENTS (continued)

Analysis of the acquisition of Teltech Resource Network Corporation:

	Book value and fair value £'000
Net assets at the date of acquisition:	
Tangible fixed assets	1,546
Debtors	2,572
Cash	893
	5,011
Borrowings under line of credit	(1,048)
Creditors falling due within one year	(3,244)
Deferred subscription income	(1,956)
Creditors falling due in more than one year	(1,375)
Net deficit	(2,612)
Goodwill arising on acquisition	28,823
	26,211

Discharged by:	
Fair value of shares issued	11,832
Fair value of options issued	2,417
Attributable costs	1,187
Cash	10,775
	26,211

In the view of the directors there were no fair value adjustments required.

Teltech Resource Network Corporation contributed £2,474,000 to the group's net operating outflow and utilized £302,000 for capital investment.

Teltech Resource Network Corporation had turnover of $15,892,000 (£10,595,000) and a loss before tax of $5,501,000 (£3,667,000) in the year ended 31 December 2000 (year ended 31 December 1999 turnover of $16,199,000 (£10,799,000) and loss before tax of $92,000 (£61,000)). The Sopheon-Teltech results for the year ended 31 December 2000 reflect the implementation of management's strategy, with effect from the third quarter 2000, to refocus the business on the new products of the Sopheon group and to accelerate significantly the rate of sales and marketing and product development expenditure. The summarized profit and loss account for the period from 1 January 2000 to 15 September 2000 (the effective date of acquisition) is as follows:

	£'000
Turnover	7,405
Operating loss	(1,775)
Other interest income/(expense)	(176)
Loss before and after tax	(1,951)

There were no recognized gains and losses other than the loss for the period.

11. INVESTMENTS (continued)

Details of the investments in which the group or company holds more than 20% of the nominal value of any class of share capital are set out below. Companies marked with an asterisk* are held via Sopheon UK Limited.

Name of Company *Country of incorporation*	*Holding*	*Proportion of voting rights*	*Nature of Business*
Sopheon Corporation Minnesota USA (trading as Sopheon-Teltech)	Common Stock	100%	Research services, knowledge management software and services
Sopheon Corporation Delaware USA	Common Stock	100%	Knowledge management software and services
Sopheon NV The Netherlands	Ordinary Shares	100%	Knowledge management software and services
Lessenger BV The Netherlands	Ordinary Shares	100%	Document management software and services
Sopheon UK Ltd United Kingdom	Ordinary Shares	100%	Knowledge management software and services
Network Managers (UK) Ltd* United Kingdom	Ordinary Shares	100%	Network management software and services
Future Tense UK Ltd* United Kingdom	Ordinary Shares	100%	Dormant
Future Tense Ltd* United Kingdom	Ordinary Shares	100%	Dormant
Applied Network Technology Ltd* United Kingdom	Ordinary Shares	100%	Employee Share Ownership Trust

12. DEBTORS

Group

	2000 *£'000*	*1999* *£'000*
Trade debtors	3,162	1,104
Other debtors	62	86
Prepayments and accrued income	1,386	172
	4,610	1,362

Company

	2000 *£'000*	*1999* *£'000*
Amounts owed by subsidiary undertakings	14,107	4,200
Other debtors	-	16
Prepayments	438	-
	14,545	4,216

*Amounts owed by subsidiary undertakings are due after more than one year, and are subordinated to the claims of all other creditors.

13. NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation of net cash flow to movement in net funds.

	2000 £'000	1999 £'000	1998 £'000
Increase/(decrease) in cash	(93)	475	(161)
(Increase) in overdrafts and lines of credit	(1,157)	-	-
Net increase/(decrease) in cash	(1,250)	475	(161)
Repayment of term loans	39	4	299
New loans	-	(8)	(1,571)
Repayments of capital elements of finance leases	8	16	12
Cash inflow/(outflow) from change in liquid resources	267	6,602	401
Change in net debt resulting from cash flows	(936)	7,089	(1,020)
Loans and finance leases acquired with subsidiary	-	(92)	-
Conversion of convertible loan stock	1,571	-	-
Exchange difference	30	-	-
Movement in net funds/(debt)	665	6,997	(1,020)
Net funds/(debt) at 1 January	6,080	(917)	103
Net funds/(debt) at 31 December	6,745	6,080	(917)

(b) Analysis of changes in net funds

	Cash at Bank £'000	Short Term Deposits/ Liquid Resources £'000	Overdrafts and Lines of Credit £'000	Convertible Loan Stock £'000	Term Loans/ Finance Leases £'000	Total £'000
At 1 January 1999	272	402	-	(1,571)	(20)	(917)
Cashflow	475	6,602	-	-	12	7,089
Acquisitions	-	-	-	-	(92)	(92)
At 1 January 2000	747	7,004	-	(1,571)	(100)	6,080
Cashflow	(93)	267	(1,157)	-	47	(936)
Exchange difference	-	-	30	-	-	30
Conversion of convertible loan stock	-	-	-	1,571	-	1,571
At 31 December 2000	654	7,271	(1,127)	-	(53)	6,745

Details of the conversion of the Convertible Loan Stock are described in Note 17.

14. CREDITORS: amounts falling due within one year

Group

	2000 £'000	1999 £'000
Overdrafts and bank lines of credit	1,127	-
5% convertible loan stock	-	1,571
Current installments due on bank loan	30	28
Obligations under finance leases and hire purchase contracts	1	8
Trade creditors	2,190	619
Other taxes and social security costs	177	241
Accruals and deferred income	3,951	708
Other creditors	333	395
	7,809	3,570

The holders of the £1,570,920 convertible loan stock exercised their conversion rights on 31 July 2000 resulting in the issue of 1,075,971 Sopheon ordinary shares. The mid-market price of Sopheon shares on the conversion date was 427p. The loan stock was held in equal amounts by B.K.Mence, and two investment funds, each of whom was allotted 358,657 Sopheon ordinary shares on conversion. Interest was paid at the rate of 5% per annum up to the conversion date. Each of the subscribers to the convertible loan stock also held 300,000 warrants to subscribe for Sopheon shares at 146p, which expired unexercised on 31 March 2001.

Company

	2000 £'000	1999 £'000
5% convertible loan stock	-	1,571
Other creditors	70	373
Other taxes and social security costs	12	10
Accruals	306	1
Amounts owed to subsidiary undertakings	871	-
	1,259	1,955

15. CREDITORS: amounts falling due after more than one year

Group

	2000 £'000	1999 £'000
Obligations under finance leases and hire purchase contracts	-	1
Bank loan: amounts falling due		
From one to two years	22	32
From two to three years	-	22
	22	55

The bank loan is a sterling asset purchase facility at an implicit rate of 8.8% and is repayable in 36 equal installments from October 1999.

16. OBLIGATIONS UNDER LEASES

Amounts due under finance leases and hire purchase contracts:
Group only

	2000	*1999*
	£'000	*£'000*
Amounts payable:		
Within one year	1	8
In two to five years	-	1
	1	9
Less finance charges allocated to future periods	-	-
	1	9

The company had no amounts due under finance leases and hire purchase contracts.

At 31 December 1999 and 2000 the group had annual commitments under operating leases as set out below.

Group

	Other	*Land & Buildings*	*Other*	*Land & Buildings*
	2000	*2000*	*1999*	*1999*
	£'000	*£'000*	*£'000*	*£'000*
Operating leases which expire:				
within one year	12	69	64	176
in two to five years	119	719	97	51
Totals	131	788	161	227

The company had commitments under operating leases as at 31 December 2000 amounting to £Nil (1999 - £12,000) expiring within one year and £nil expiring within two to five years (1999 - £nil).

17. SHARE CAPITAL

Authorized	*2000 Number*	*2000 £*	*1999 Number*	*1999 £*
Ordinary shares of 5p each	60,000,000	3,000,000	42,902,961	2,145,148
Deferred shares of 15p each	19,228,885	2,884,333	19,228,885	2,884,333

Allotted, called up and fully paid	*2000 Number*	*2000 £*	*1999 Number*	*1999 £*
Ordinary shares of 5p each	38,624,913	1,931,246	32,131,846	1,606,592
Deferred shares of 15p each	19,228,885	2,884,333	19,228,885	2,884,333
		4,815,579		4,490,925

On 20 January 1999 5,000 ordinary shares were issued for cash to an exercising holder of share options at 20p each. On 10 March 1999 340,000 ordinary shares were issued to institutions for cash at a price of £1.47 per share. On 28 April 1999 20,000 ordinary shares were issued for cash to an exercising holder of share options at 20p each.

On 22 November 1999 in an Extraordinary General Meeting of the Shareholders the share capital of Sopheon plc was restructured such that each ordinary share of 20p was converted into one ordinary share of 5p and one deferred share of 15p. The deferred shares carry no rights as to dividend, voting or return of capital on liquidation, and are not listed on any exchange. The number of ordinary shares in issue did not change as a consequence of the restructuring. Similarly, the number, exercise price and other terms of any share options over ordinary shares of 20p each remained unchanged as a consequence of the restructuring.

On the same date 6,500,000 ordinary shares of Sopheon plc were placed with institutions at a price of 125p per share, realizing net proceeds after attributed costs of £7,699,000. and a further 6,402,961 ordinary shares of Sopheon plc were issued as consideration for the acquisition of 100% of the ordinary share capital of AppliedNet Limited (renamed Sopheon UK Limited), at a price of 129p per share.

On 18 January 2000 25,000 ordinary shares were issued for cash to exercising holders of share options at 20p each and 30,000 ordinary shares were issued at 145p per share in consideration for the provision of marketing services together with a payment of 20p per share in cash. On 1 February 2000 400,000 ordinary shares were issued for cash to an exercising holder of share options at 20p each.

On 9 March 2000 2,500,000 ordinary shares of Sopheon plc were placed with institutions at a price of 800p per share, realizing net proceeds of £18,953,000 after attributed costs of £1,047,000. On 22 March 2000 a further 122,500 ordinary shares were issued for cash at a price of 800p per share to certain of the company's advisers from their commissions or fees arising from the placing.

On 25 April 2000 20,000 ordinary shares were issued for cash to an exercising holder of share options at 20p each, and 45,000 ordinary shares were issued at 145p per share in consideration for the provision of marketing services together with a payment of 20p per share in cash. On 25 May 2000 10,000 ordinary shares were issued for cash to an exercising holder of share options at 89.5p each.

At the AGM held on 30 June 2000 the authorized share capital of the company was increased to £5,884,333 by the creation of an additional 17,097,039 ordinary shares of 5p each.

On 31 July 2000 1,075,971 ordinary shares were issued pursuant to the exercise of conversion rights attaching to the £1,570,920 5% convertible loan stock.

17. SHARE CAPITAL (continued)

On 15 September 2000 2,094,105 ordinary shares were issued as part consideration for the acquisition of Teltech Resource Network Corporation and on 12 December 2000 a further 491 ordinary shares representing fractional entitlements were placed for cash at 180p per share.

On 10 October 2000 170,000 ordinary shares were issued for cash to exercising holders of share options, comprising 120,000 shares at 120p each, 30,000 shares at 150p each and 20,000 shares at 177.5p each .

Warrants to subscribe for Sopheon shares

At 31 December 2000 there were outstanding 900,000 warrants to subscribe for Sopheon shares at a price of 146p per share. In December 2000 the latest date for exercise of the warrants was extended from 31 December 2000 to 31 March 2001. The warrants were issued in July 1998 to the subscribers of £1,570,920 5% Convertible Loan Stock referred to above. The warrants expired unexercised on 31 March 2001.

Employee share option schemes

At the AGM held on 30 June 2000 shareholders approved a maximum of 3,000,000 Sopheon ordinary shares over which options could be granted under any employee share option scheme. Share options are granted by the Board of directors on a discretionary basis under the terms of the share option schemes summarized below.

On 28 August 1996 the directors adopted, and the company in general meeting approved, a share option scheme to provide for the grant to certain directors and employees of PolyDoc NV (renamed Sopheon NV) of options over Sopheon ordinary shares in exchange for the surrender by such directors and employees of their existing options over shares in PolyDoc NV, and to provide for further grants of share options to employees of the Sopheon group subject to Dutch tax.

On the same date the directors adopted, and the company in general meeting approved, an executive share option scheme in a form approved by the Inland Revenue. Subsequently an unapproved executive share option scheme was established with terms similar to the approved scheme. Since the establishment of these schemes, a number of option grants have been made, all of which have been made under the unapproved scheme.

Pursuant to the acquisition of AppliedNet Limited in November 1999, share options granted under the AppliedNet unapproved share option scheme were released in exchange for the grant of new options over Sopheon ordinary shares. These share options remain subject to the rules of the AppliedNet unapproved scheme.

On 29 September 2000, following the acquisition of Teltech Resource Network Corporation, the directors adopted the Sopheon plc 2000 (USA) Stock Option Plan, under which share options can be granted either as qualifying Incentive Stock Options (ISOs) or as Non-Qualifying Options (NQOs)

17. SHARE CAPITAL (continued)

A summary of outstanding options granted under the share option schemes at 31 December 2000 is set out below.

Year of grant	*Number*	*Exercise Price (£)*	*Exercise Period From*	*To*
1996	60,000	0.2000	28-08-96	21-07-01
1997	1,000	1.9750	01-06-00	01-06-07
1998	36,500	1.7000	29-06-98	29-06-03
1998	30,000	1.7000	29-06-01	29-06-08
1998 (1)	191,847	0.0860	29-12-01	29-12-08
1999	7,500	1.4150	20-01-02	20-01-09
1999	10,000	1.4150	20-01-99	20-01-04
1999 (1)	87,209	0.0860	04-03-02	04-03-09
1999	35,000	1.4250	28-04-99	28-04-04
1999 (2)	42,500	1.5000	28-04-00	28-04-09
1999 (1)	13,080	0.8732	01-06-02	01-06-09
1999 (1)	52,320	0.8732	01-10-02	01-10-09
1999 (2) (3)	62,500	1.5000	03-11-00	03-11-09
1999	50,000	1.5000	03-11-02	03-11-09
1999 (3)	100,000	1.5000	22-11-02	22-11-09
2000 (2)	12,000	5.7900	24-01-01	24-01-10
2000	4,360	6.9250	31-01-03	31-01-10
2000 (2)	3,000	6.0725	25-01-01	25-01-10
2000 (2)	2,000	7.1800	31-01-01	31-01-10
2000 (2)	20,000	9.6000	08-02-01	08-02-10
2000 (2)	33,500	4.9500	28-06-01	28-06-10
2000 (2)	25,000	5.0000	26-06-01	26-06-10
2000	104,000	4.9500	28-06-03	28-06-10
2000	15,000	4.2750	02-10-03	02-10-10
2000 (2)	185,541	4.2750	02-10-01	02-10-10
2000 (2)	10,000	3.7250	15-11-01	15-11-10
2000	13,500	1.6000	31-12-03	31-12-10
2000 (2)	112,500	1.6000	31-12-01	31-12-10

(1) Arising from options held by employees of AppliedNet and rolled over into Sopheon options.

(2) One fourth of these options become exercizable each year starting on the date indicated. All other options become exercizable in full from the date indicated.

(3) Includes options which are contingent upon certain performance targets.

Other share options

Fully vested options to subscribe for 718,292 Sopheon ordinary shares at prices between £1.84 and £5.15 were granted on 15 September 2000 as part of the consideration payable in respect of the acquisition of Teltech Resource Network Corporation. These options, with exercise dates between 7 June 2001 and 31 July 2010, are held by the vendors of Teltech. At 31 December 2000 8,286 of such options had lapsed and 710,006 remained outstanding, in respect of which the aggregate exercise price was £1,617,000.

18. SHAREHOLDERS' FUNDS

Group

	Share Capital £'000	Shares to be Issued £'000	Share Premium Account £'000	Merger Reserve £'000	Other Reserve £'000	Profit & Loss Account £'000
At 1 January 1998	3,743	-	2,076	-	-	(5,558)
Arising on share issues	30	-	137	-	-	-
Shares to be issued	-	15	-	-	-	-
Retained loss for the year	-	-	-	-	-	(981)
Exchange differences	-	-	-.	-	-	47
At 31 December 1998	3,773	15	2,213	-	-	(6,492)
Prior year adjustment	-	-	-	-	-	(373)
At 31 December 1998	3,773	15	2,213	-	-	(6,865)
Arising on share issues	718	-	15,747	-	-	-
Adjustment to earn out	-	(5)	-	-	-	-
Retained loss for the year	-	-	-	-	-	(2,072)
Exchange differences	-	-	-.	-	-	(45)
At 31 December 1999	4,491	10	17,960	-	-	(8,982)
Reclassification of share premium to merger reserve (See below)	-	-	(7,940)	7,940	-	-
At 31 December 1999 (restated)	4,491	10	10,020	7,940	-	(8,982)
Arising on share issues	325	-	33,300		-	-
Shares to be issued	-	620	-	-	-	-
Reserve for issue of share options	-	-	-	-	2,417	-
Retained loss for the year	-	-	-	-	-	(11,945)
Exchange differences	-	-	-	-	-	100
At 31 December 2000	4,816	630	43,320	7,940	2,417	(20,827)

The adjustment to earn out represents an adjustment to contingent consideration payable in respect of Lessenger Associates BV, acquired in December 1998. The exchange differences arise on the retranslation of net assets and the results of subsidiary undertakings.

The premium on the shares issued as consideration for the acquisition of AppliedNet has been reclassified from share premium to merger reserve under the provisions of section 131 Companies Act 1985-merger relief.

Company

	Share Capital £'000	Shares to be Issued £'000	Share Premium Account £'000	Merger Reserve £'000	Other Reserve £'000	Profit & Loss Account £'000
At 1 January 1999	3,773	15	2,213	-	-	(5)
Arising on share issues	718	-	15,747	-	-	-
Adjustment to earn out	-	(5)	-	-	-	-
At 31 December 1999	4,491	10	17,960	-	-	(5)
Reclassification of share premium to merger reserve (See above)	-	-	(7,940)	7,940	-	-
At 31 December 1999 (restated)	4,491	10	10,020	7,940	-	(5)
Arising on share issues	325	-	33,300	-	-	-
Shares to be issued	-	620	-	-	-	-
Reserve for issue of share options	-	-	-	-	2,417	-
Retained profit for the year	-	-	-	-	-	908
At 31 December 2000	4,816	630	43,320	7,940	2,417	903

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The group's approach to managing financial risk is described in the Directors' Report.

Interest rate risk profile of financial liabilities

Excluding the Convertible Loan Stock which bore a fixed rate of 5% on a nominal value of £1,570,920 and was converted into ordinary shares on 31 July 2000, the financial liabilities of the group at each year end are set out below.

	2000	*1999*
	£ '000	*£ '000*
Floating rate line of credit - US Dollar	1,011	-
Floating rate overdraft - Sterling	116	-
Fixed rate loans - Sterling	53	82
Fixed rate loans and leases - Dutch Guilder	-	9
	1,180	91

These financial liabilities bear interest rates that are based on local bank rates.

Interest rate risk profile of financial assets

The financial assets of the group at each year end comprise cash or cash deposits on money market deposit at call and monthly rates. The amounts were as follows

	2000	*1999*
	£ '000	*£ '000*
Floating rate		
Sterling	7,271	7,004
	7,271	7,004
Non-interest bearing		
Sterling	198	496
US Dollar	217	97
Dutch Guilder	239	154
	654	747
Total financial assets	7,925	7,751

Currency exposures

The table below shows the group's transactional currency exposures that give rise to the net currency gains and losses recognized in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating currency of the operating unit involved, and have arisen only in operating units with a functional currency of Sterling.

	Net foreign currency monetary assets		
		Dutch	
	US dollar	*Guilder*	*Total*
	£'000	*£ '000*	*£ '000*
1999 Sterling	97	-	97
2000 Sterling	101	25	126

Maturity of financial liabilities

The maturity profile and interest rates of the group's financial liabilities at each relevant period or year end is as set out in Notes 14 and 15.

Borrowing facilities

The group had no undrawn committed facilities available at each relevant period or year end, apart from overdraft facilities and lines of credit.

Fair values of financial assets and liabilities

The fair values of financial assets and liabilities are set out below. Finance leases are included in the analysis of long term borrowings. The directors consider that there were no material differences between the book values and fair values of all the group's financial assets and liabilities at each year end.

	Book value	
	2000	*1999*
	£ '000	*£ '000*
Cash and short term deposits	7,925	7,751
Bank overdrafts and lines of credit	(1,127)	-
Convertible Loan Stock	-	(1,571)
Current portion of long-term borrowings	(31)	(36)
Long-term borrowings	(22)	(55)

20. CONTINGENT LIABILITIES

In accordance with Article 403, Paragraph 1, Subsection b, Book 2 of the Dutch Civil Code (B.W.), Sopheon plc guarantees the liabilities of Sopheon NV and agrees with the departure from the regulations in Title 9 Book 2 of the Dutch Civil Code (B.W.), that prescribes the submission of the accounts of Sopheon NV to the Trade Register in Holland. As a consequence Sopheon NV need not file its accounts at the Trade Register.

21. EVENTS SINCE THE BALANCE SHEET DATE

On 29 March 2001 the Company announced that it had signed a letter of intent to acquire the Technology and Information Services division ("AIT") of Aventis Research & Technologies, Frankfurt, Germany. Its activities are complementary to Sopheon's existing operations and will give a strong service and product presence in Germany and in the life sciences market, and a relationship with one of the world's leading pharmaceutical companies. Like Sopheon, AIT is focused on providing technology-based solutions that integrate software applications, expert services and specialized content to improve knowledge-intensive business processes.

Sopheon anticipates that the consideration for the proposed acquisition will comprise the issue of new ordinary shares to the vendor (subject to a twelve month lock-in period) with a value approximately equal to the net assets being acquired. At the time the transaction is completed, it is anticipated that AIT will have sufficient working capital for it to operate as an independent entity outside Aventis Research & Technologies. The consideration will also incorporate an earnout component, also in the form of Sopheon equity, linked to profits in 2001 through 2003.

AIT has annual revenues of DM 20 million (£6.5 million) and generates an operating profit. The transaction will be subject to completion of due diligence, execution of a definitive agreement, respective board and regulatory approvals, amongst other requirements.

On 2 May 2001 the Company announced that it granted options over Sopheon ordinary 5p shares to certain directors as part of a wider 2001 incentive award of up to 743,781 options to its staff. The options were granted at a price of 77.5p per ordinary share and in the case of staff and executive directors, the ultimate number of options granted depends on meeting certain performance criteria for 2001. As part of this award, Andrew Michuda (Chief Executive) was granted up to 77,162 options, Barry Mence (Chairman) up to 45,000 options, and Arif Karimjee (Chief Financial Officer) up to 25,000 options. In addition to the 2001 incentive grant, Bernard Al, who joined the board as a non-executive director earlier this year, was granted 25,000 options.

sopheon

www.sopheon.com

Sopheon (USA)

2850 Metro Drive
Minneapolis, Minnesota
55425-1566
USA

Tel.: +1 952 851 7500
Fax: +1 952 851 7744

E-mail: info_us@sopheon.com

Sopheon (NV)

"De Gelder"
A.J. Ernststraat 595-G
1082 LD Amsterdam
The Netherlands

Tel.: +31 (0) 20 301 3900
Fax: +31 (0) 20 301 3999

E-mail: info_nl@sopheon.com

Sopheon (UK)

Stirling House, Stirling Road
Surrey Research Park
Guildford, Surrey GU2 7RF
UK

Tel.: +44 (0) 1483 88 3000
Fax: +44 (0) 1483 88 3050

E-mail: info_uk@sopheon.com