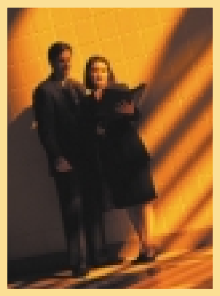
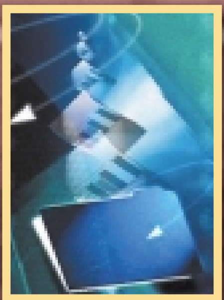
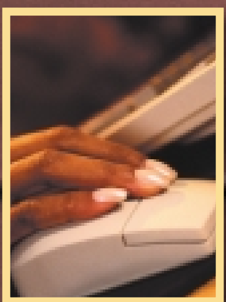
SOPHEON 2001







sopheon

The Knowledge To Compete®

ANNUAL REPORT

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

contents

Sopheon is an international provider of software-based solutions that enable organizations to access internal and external information and knowledge more efficiently and turn it into competitive advantage. Sopheon's software applications, which are preloaded with specialized content and access to human expertise, enhance critical

Group Profile

processes within research and development (R&D). The group has operating bases in the United Kingdom, the Netherlands, Germany and the United States. Its clients are R&D-intensive 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

Like the two years that preceded it, 2001 proved very eventful for Sopheon on both corporate and operational fronts. Against a background of dramatic market change, we have continued to make solid progress in building an organisation that combines software with content and expertise to create integrated product and service offerings. During the past year, Sopheon focused its activities increasingly within the market represented by major corporations and their information and process requirements for product development and R&D.

Group development in 2001 included two further acquisitions – a division of Aventis Research & Technologies in Germany in June and Orbital Software Holdings plc in the UK in November – deepening our customer base, market reach and our product and technical capabilities.

The process of integrating the businesses acquired over the last two years advanced rapidly in the final quarter of 2001 as the company was reorganized into two complementary global operating divisions: Information Management (IM), which focuses on the more traditional research services side of Sopheon's business, including outsourcing; and Business Process Solutions (BPS) which concentrates on Accolade and Organik sales, more details of which are set out below. We have also retained the Healthcare applications unit in the Netherlands to focus resources on regional opportunities in that sector. The reorganization included a sharp reduction in the cost base through elimination of duplicated costs and a significant contraction of the workforce.

TRADING BACKGROUND

The general economic downturn affected revenues within certain existing accounts, as well as the development of new opportunities. During the second half of the year we disclosed disruption to trading with certain IM customers and this continued through the final quarter. As ongoing uncertainty drives companies to restructure their operations and supplier relationships, additional pressure is expected on elements of such revenues in North America and Germany in 2002. However, these market conditions also create opportunities for IM services, exemplified by recent outsourcing contracts signed with GE and Alticor, and an outsourcing relationship based on implementation of a custom research portal at Armstrong World Industries announced earlier in the year. Packaged offerings are also being developed in areas such as intellectual property research, which have secured new sales in Germany. Our consultancy and integration teams continued to be awarded bespoke projects, though at a reduced level, as we continued their transition to supporting Sopheon's own products. Accolade, Sopheon's software solution for automating the product development process, was introduced in the first half of 2001. Early acceptance was achieved with new and existing customers during the second half of the year in each of the US, the UK, the Netherlands and, at the end of the year, in Germany through our Aventis relationship.

RESULTS AND FINANCE

Sopheon's consolidated revenues in 2001 showed a 78% increase to £14.0m (2000 : £7.8m). This included a contribution of £2.8m from our new German subsidiary for the six months from 1 July 2001 and £0.1m from Orbital Software Holdings plc for the six-week period from 16 November 2001. Approximately 74% of the total revenues came from the IM division representing research analyst services, portal subscriptions and information provision; of this, some 90% was recurring revenue or sales to existing customers. The BPS division, representing software applications and related consultancy services, contributed 26% of revenue during the year.

Consolidated EBITDA losses increased to £11.8m (2000 : £6.7m) reflecting continued high levels of investment in product development, sales, marketing and implementation capabilities. Also included in this total was approximately £1m of redundancy and restructuring costs which were incurred in the final quarter of 2001. Compared with interim information reported by the enlarged group including Sopheon GmbH and Orbital, the combined annualised fixed cost base going into 2002 was reduced by over 25% through elimination of duplicated costs and a significant contraction in the workforce. Despite this backdrop of cost reductions, Sopheon ended the year with an expanded product and technology offering, broader sales and distribution and deeper product development resources.

In accordance with accounting standards, goodwill amortisation was accelerated during the year to reflect the changed market conditions since the acquisitions of AppliedNet in 1999 and Teltech in 2000. This resulted in a total goodwill amortisation charge of £21.4m during the year, comprising £12.3m of regular charges and an exceptional impairment charge of £9.1m, leading to a loss before tax of £34.6m (2000 : £11.9m) and a loss of 76.2p per ordinary share (2000 : 33.4p).

In June, Sopheon issued £2.6m of convertible unsecured loan stock to a group of investors with £750,000 contributed by members of the board and senior management Together with the acquisition of Sopheon's new German subsidiary from Aventis Research and Technologies and the acquisition of Orbital Software Holdings plc, this resulted in gross cash resources of £13.3m at 31 December 2001 (2000 : £7.9m) before overdrafts and lines of credit drawn totalling £0.7m (2000 : £1.1m).

BUSINESS DEVELOPMENT AND STRATEGIC REVIEW

Sopheon's vision has always been to develop software applications integrated with specialized content and expert services that help organisations more effectively manage specific knowledge-intensive business processes. It is Sopheon's belief that the lack of content – whether internal or external, documented or tacit – in software applications is responsible for a high percentage of implementations not living up to expectations. While software is always designed to bring new efficiencies to business processes, Sopheon solutions are distinctive – they integrate with content and human expertise that are critical to the business applications for which the solutions are intended, enabling users to maximise the knowledge resources at their disposal and to reduce the time needed to complete essential tasks within a process.

Our original software applications primarily served the healthcare industry, in which we have a continued presence in the Netherlands. Our principal focus has since shifted to the R&D market. We believe that R&D organisations within technology-driven companies have the greatest need for solutions of the kind we offer. They also represent the historic core customer base within the IM side of our business, which is targeted at vertical industry segments such as consumer goods, high technology, chemicals, pharmaceuticals and foods. Customers find answers to their questions by accessing Sopheon's teams of research analysts, network of external experts and third-party content resources through Sopheon's proprietary portals.

Accolade, Sopheon's flagship software solution for product development, was introduced in the first half of the year. While order volumes were limited in 2001, our initial customers represent an active and supportive reference base on which to build. The beta version of Accolade 3.0, with significantly increased functionality, was released in December. Interest in Accolade continues to develop, attracting comment from analyst firms such as Gartner, Giga and IDC, as well as editorial coverage in industry publications, proposal requests and paid pilot commitments. These underline the market opportunity and pipeline, but also reflect the more cautious pace of today's purchasing behaviour. Since the start of 2002, we have had three additional orders for Accolade, in the chemicals, paper and medical products industries.

Sopheon's optimism for Accolade is supported by market analysis which suggests that innovation and time-to-market are among the top priorities of today's CEOs. Recent studies indicate that for an average firm only 59% of products succeed upon commercialisation. Sopheon has entered into an exclusive partnership with the Product Development Institute (PDI), creators of the Stage-Gate™ product development methodology used by 60% of technology-driven companies in the USA (source: PDMA report 1997), to develop Sopheon's Accolade solution. Accolade automates the Stage-Gate™ and other product development process structures, helping product development teams terminate bad product ideas sooner, reduce costs, accelerate time to market, and improve resource allocation and decision making. The solution has already been accepted by market-leading companies such as Vodafone; we have been able to demonstrate strong return on investment cases for Accolade, including attractive forecasted payback periods generally of less than 12 months. In line with our stated vision, Sopheon's IM services can be integrated with Accolade to support and inform product development decisions from concept to launch.

Our acquisition strategy has closely followed our business strategy. In particular, our new German operations represent a solid footprint of information management and IT skills serving R&D-intensive corporations, with a mature revenue base in a new geographical market, and the Orbital acquisition has secured well-respected technology and development resources, with over 20 deployments to date. Prior to becoming part of the group in late 2001, Orbital Software undertook a review of its development strategy with the assistance of the Chasm Group, a business-strategy consultancy specializing in technology markets. This review confirmed that Orbital should direct its commercial focus toward a specific business problem, identifying R&D as the area most in need of the kind of solutions the combined group now offers. These findings further validated Sopheon's focus on the R&D and product development sector and the strategic merits of the Orbital transaction. Since the acquisition of Orbital, orders for Organik have continued to come through, including the first Organik sale into an existing Sopheon client, a leader in the pharmaceutical industry, in December.

In mid-2001, we announced the launch of Sopheon's Via (Valued industry alliance) Program, an initiative to link the company to technology-solution consultants, implementers and resellers throughout the world. It focuses on the marketing and implementation of our software applications. Sopheon has signed and announced agreements with an international mix of global and local providers of business process solutions and services. Our new partners typically bring skills, experience and a customer base in product development, content delivery or business process improvement and are therefore well suited to Sopheon's Via Program objectives.

Towards the end of the first quarter of 2002, Sopheon's direct sales organisation was working with 192 prospects for our software products. Supporting the promise of a stronger mix of high-margin software revenues, Sopheon's integration and consultancy teams have continued to reduce involvement with third-party products and bespoke assignments, and are focusing on being ready to support Accolade and Organik sales and projects. Nevertheless we continue to secure high profile one-off assignments such as the Oxford English Dictionary CD-ROM development announced in January 2002.

PRODUCTS AND IPR

Accolade 3.0 was released in December 2001 with a range of additional features based on findings from a stringent market-verification process involving research on user requirements among more than 60 current and prospective Accolade clients. Features of the new release include two-way integration with Microsoft Project, integrated resource planning tools, improved portfolio management reporting and a range of additional collaboration features such as document sharing and version control, virtual meetings, threaded discussions and secure access for external partners.

We were delighted to be awarded a European patent in connection with the software architecture and methodology that lie at the core of Sopheon's proprietary business process applications. The technology is already built into applications being used by teaching hospitals in the Netherlands to pilot conversion of paper-based medical protocols to electronic documentation.

In addition, our technology portfolio has been significantly enhanced by Orbital's patented profiling technology, around which its Organik portal product was built. Organik was recently selected by the Software & Information Industry Association (SIIA) as a finalist for the 2002 Codie Award for "best Internet-based communication/collaboration product," validating the expertise-sharing platform as an industry-leading software solution for leveraging an organization's intellectual capital within knowledge-intensive business processes. Organik 3.5 has just been released with significant benefits for customer integration and compatibility needs.

Development work is underway to integrate our patented architecture and methodology and Organik feature functionality into the Accolade product development system, applying it to the process of creating, publishing and re-using content from knowledge bases and communities of interest built up by an organisation during the product development life cycle. In addition, we are implementing tighter integration of our award-winning IM research portal within the system to enhance linkage to external content and analysis. Our expectation is that this "knowledge-centric" version of Accolade, will be released around the middle of this year.

Our development teams are now based in two key centres, being Edinburgh for the former Orbital unit and Denver for the existing Sopheon unit. These two centres work in close cooperation with a single product calendar, under a single management structure and with the same high quality standards, which we firmly believe deliver world-class, enterprise strength software.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT TEAM

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

At the completion of the acquisition of Orbital we were pleased to welcome Andrew Davis, one of Orbital's former non-executive board members, to the Sopheon plc Board, taking the total number of non-executives to four compared with three executive directors. The main focus of Mr. Davis' transitional role is to support integration of the Orbital people, products and infrastructure. It is planned to further strengthen our board during 2002.

Since the reorganisation, the executive management board has reduced in size. Andy Michuda, our CEO, has taken day-to-day responsibility for driving our BPS division through to meeting the challenging business objectives we have set for 2002. In addition to the executive directors, the management board comprises Jack Johnson (president of the IM business), Chris Hawver (chief marketing officer), Huub Rutten (leader of our Healthcare unit) and Paul Heller (chief technology officer).

OUTLOOK

2001 was another year of considerable progress in a very difficult market. The two acquisitions completed during the year have brought increased commercial reach, complementary intellectual property and a strengthened balance sheet. We have been disappointed with the speed of conversion of our sales pipeline, but in spite of econonic conditions, we remain convinced that our Accolade and Organik products, and our outsourcing propositions for research and information services, can become solutions of choice within the R&D organisations of major corporations.

We are determined to focus on, invest in and implement our business model, which we believe will offer persuasive returns on investment and enhanced competitive advantage to our customers. This determination is coupled with a drive to increase significantly the proportion of group revenues derived from BPS during 2002. Our cash resources going into 2002 give us a foundation with which to implement our business plan, which has the objective of becoming cashflow generative going into 2003. In conjunction with setting this challenging target, we continue to maintain a tight grip on costs.

We believe that Sopheon is an integrated and focused business well positioned to capitalise on its strengths going forward. With some early 2002 wins under our belt, all efforts are now being concentrated on revenue growth and operational excellence to build towards the stated goal of being a profitable and leading provider of software and services to major corporations within the R&D sector.

Barry Mence
Executive Chairman

Andy Michuda
Chief Executive Officer

3 April 2002

Market and Product Overview

The need for precisely relevant decision-making and problem-solving support is central to the successful execution of today's business processes. As the quantity of internal and external information and knowledge grows, the ability to quickly organize it, access it, gain insight from it and apply it has become an increasingly critical necessity. This requirement, in turn, is driving more and more demand for high-performance tools and solutions that effectively enable such gathering and use.

Sopheon's product and services are uniquely capable of facilitating information and knowledge access and application. The primary reason is that they integrate technology and human expertise. People can provide answers and context that document-centric software offerings simply cannot. Sopheon's solutions provide cost-effective access to both documented information and human knowledge sources within one application environment, a standard by which future software-based business process applications are likely to be measured.

The utility of Sopheon's products and services is further enhanced by their tight integration with workflow inside critical business processes. From pivotal research and development to product creation and commercialisation, from assessment of business opportunities to management of intellectual property and optimisation of patient care, organisations depend upon Sopheon's solutions to cope with their greatest challenges.

Today, the power and accessibility of Sopheon technology, information management services and expertise are redefining the capacity of technical professionals to access and apply needed information and know-how. This is true whether such information resides in the mind of a nearby colleague, or that of a world-class technical authority on the other side of the globe; whether it's to be found in the knowledgebase of another operating unit within the same company, or the document database of a far-off technical publisher. Our solutions empower individuals. In turn, entire teams and organisations are empowered, making them more innovative and productive. Sopheon's capabilities are helping organisations in high-tech manufacturing, life sciences and healthcare – by enabling them to achieve specific business objectives, and important bottom-line results.

"ADL's interest in teaming with Sopheon is based on our judgment that their success in blending technology, content and human expertise has resulted in products that are exceptional in their ability to strengthen business processes, cut costs and improve the return on investments in intellectual capital."

Robert Shelton, Vice President, Arthur D. Little

Our History

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

In November of 1999, PolyDoc 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. Besides extending the intellectual property of the group, this acquisition added strength in implementation services and significantly expanded PolyDoc's market presence in the UK. Coincidental with its acquisition of AppliedNet, PolyDoc changed its name to Sopheon.

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

As a part of the strategy for globalizing its research services offering, in July of 2001 Sopheon acquired the Technology and Information Services division ("AIT") of Aventis Research & Technologies, Frankfurt, Germany. Originally formed as the Scientific Information Department of Hoechst A.G. - Central Research, AIT was converted to profit-center status in 1998 when it extended its service reach to include a growing number of customers outside the Hoechst (now Aventis) group. The acquisition gave Sopheon a substantial presence and customer base in Germany and in the life sciences market, including a relationship with one of the world's leading pharmaceutical companies.

Consistent with its focus on offering solutions that integrate technology with human expertise, in November of 2001 Sopheon acquired UK-based Orbital Software, a leading provider of knowledge sharing and collaboration solutions. The acquisition expanded Sopheon's ability to enable access to both documented information and human expertise.

Investing in Solutions to Support Knowledge-Intensive Business Processes

One widely accepted maxim in today's rapidly evolving knowledge-based economy is that business success depends upon speed and precision in identifying and responding to market needs. In 2001, Sopheon moved to sharpen the focus and increase the efficiency and response-time of its solutions development, marketing and sales efforts by dividing its organisation into two global operating divisions: Business Process Solutions (BPS) and Information Management (IM). As an aspect of this reorganisation, the group also retained its Healthcare applications unit in the Netherlands.

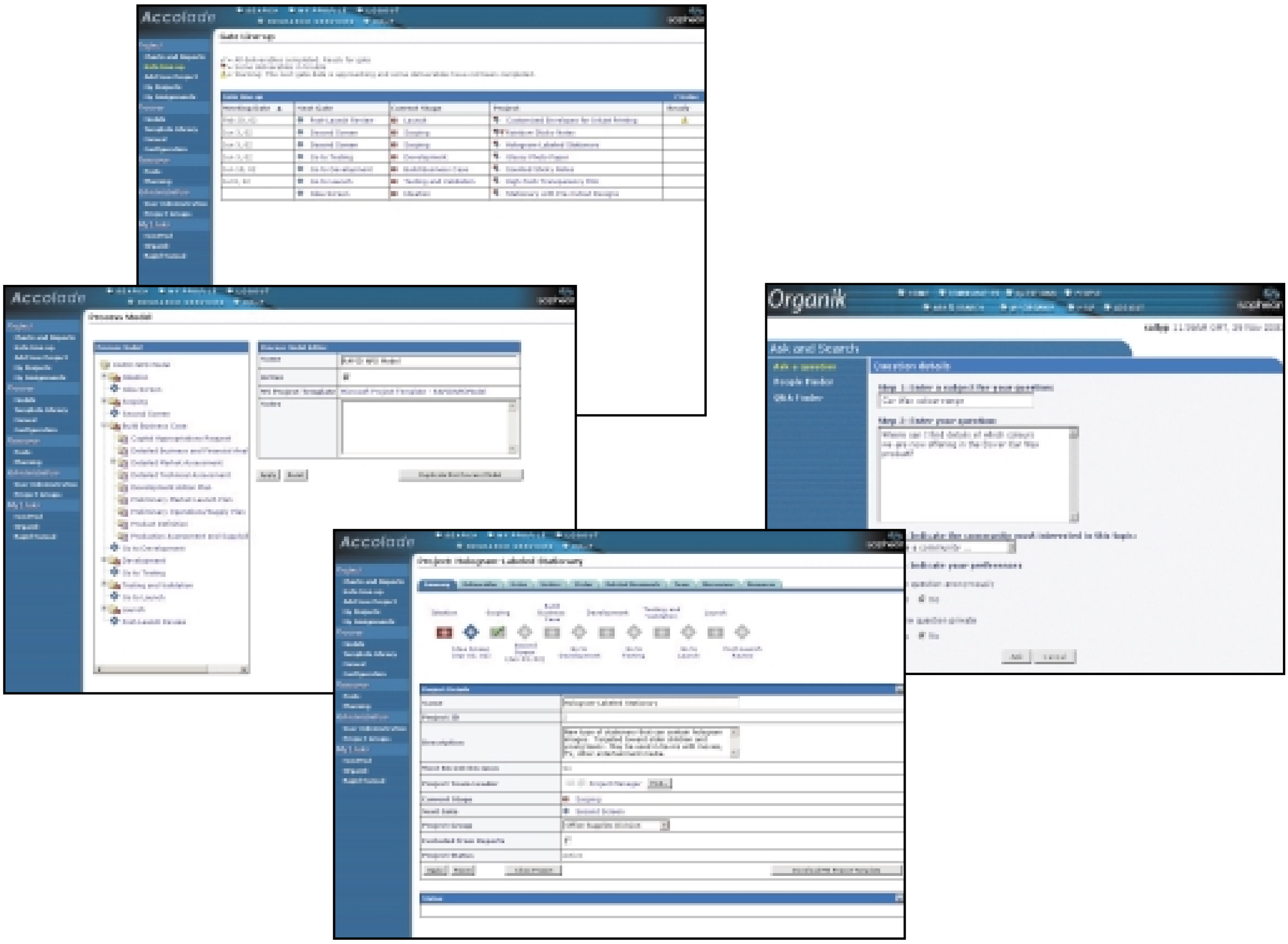
EXECUTIVES FROM FORTUNE 1000 COMPANIES RANK NEW PRODUCT DEVELOPMENT AMONG THEIR TOP THREE BUSINESS STRATEGIES FOR 2002. – ACCENTURE

Business Process Solutions – Helping Organizations Move from Strategy to Results

Sopheon's solutions blend the richness of human expertise and specialized content with the efficiencies of technology to support strategic, knowledge-intensive business processes such as R&D and product development. Sopheon's solutions model and automate the steps of these processes, integrating market, technical and competitive research to support and inform process decisions.

"We have a world-class product development process and Sopheon's Accolade solution will help us manage our process in order to optimize innovation and productivity and reduce time to market."

Malcolm Mitchell, Director of Information Technology, Vodafone UK Limited



Sopheon Accolade™ As part of their strategies for achieving and sustaining success in today's economic order, many companies are striving to generate more revenue from new products. The best practitioners of new product development are deriving as much as 50% of their revenue from products introduced to market in the last 5 years . The number of new products introduced last year was triple the number introduced in 1980, contributing to increasingly fierce market competition and ever-shorter product life cycles (*Booz Allen & Hamilton, Cap Gemini, Cooper & Edgett, The Performance Measurement Group*). As a result, companies must be able to develop new products faster than ever before. Sopheon's Accolade for product development embodies our vision for integrated business process solutions. Accolade is a software system that automates the product development process. It was developed by Sopheon in partnership with Drs. Robert Cooper and Scott Edgett, founders of the Product Development Institute (PDI) and creators of the Stage-Gate™ product development methodology used by more than 60 percent of the technology-driven companies in the US. Accolade's principal components – a process engine and a just-in-time knowledge network – organise documents, resources and metrics, facilitate team communication, and provide access to the internal and external information and human expertise necessary to inform decision making throughout the product concept-to-commercialisation cycle. System modules include a portfolio management tool, screening software that predicts the probability of a product concept's commercial success, and a benchmarking module that identifies product-development process strengths and weaknesses. By applying Accolade's capabilities, R&D teams are able to more efficiently and cost-effectively bring products to market.

"The focus of Cargill's R&D organization is on developing and optimizing innovative products, and we feel that in Accolade we have the key to significant improvement in managing that effort….We expect that the cost and time savings resulting from Accolade implementation will demonstrate a payback metric of seven months."

Theo van den Abeele, European Research and Development Director, Cargill

Sopheon Organik® Organik creates an environment in which worker communities can find answers, locate expertise and share knowledge. An adaptable, scalable Web-based offering that can be configured to integrate into desktop solutions, it captures the questions and answers of knowledge workers within an organisation and builds a searchable and re-usable knowledge base. Organik's patented profiling technology automatically locates the best people to answer a user's question or recommends people who can help with a particular topic. The software continually learns about each knowledge worker's experience, creating dynamic profiles that evolve to reflect the expertise and interests that the professional demonstrates through continued use of the system. Integration of Organik with Sopheon's Accolade and information management solutions allows Sopheon to offer software systems that enable access to both documented information and human expertise, whether internal or external to an organisation, within a single application environment.

"Organik's approach to supporting communities was easy to sell within Ericsson … as we found our engineers keen to share best practices and discover new visions in a more informal and intuitive manner."

Anders Hemre, Director of Enterprise Performance, Ericsson

Information Management – A Trusted Source of Actionable Information

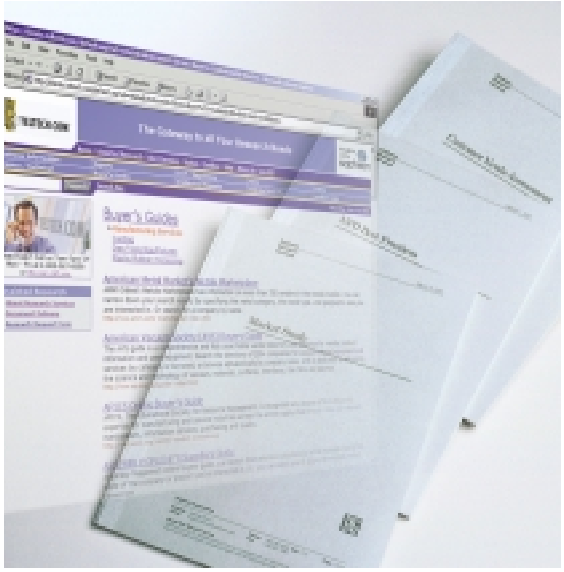
Research indicates that knowledge workers spend an average of 30 percent of their time looking for information (Working Counsil for CIO's). That's nearly 600 hours annually that could otherwise be used to apply the information to critical decisions. Sopheon understands that business success depends on timely access to essential knowledge and information for decision making and problem solving.

With 16 years of experience, Sopheon has strong, proven competencies in the development of content and links to information resources to support successful implementation of knowledge-intensive business processes. Its clients are companies in the life sciences, high tech and healthcare sectors, and include nearly half of the technology-driven companies on the *Fortune 500.*

"By outsourcing information management services, we improve our efficiency in acquiring critical information and focus more of our internal energy on fostering collaboration and reuse of shared information. Sopheon has tailored information to the individual needs of our users and business processes, with an emphasis on providing better information as the basis for faster, more-informed decisions within our R&D/QA organisation."

Greg Evans, Vice President, Product Development, R&D/QA Division, Access Business Group

Sopheon's Information Management solutions are designed to improve the effectiveness of information delivery, analysis, and use across organizations. Each year, Sopheon supplies answers to tens of thousands of business and technical questions by providing access to its staff of analysts and a proprietary network of technical and industry experts, and by supplying business intelligence through our award-winning, Web-based research portal,



Teltech.com. Access to these comprehensive research sources, which blend human expertise and specialized content, tailored to the unique information needs of specific communities of users, takes several forms.

Research Services. Through Sopheon's services, organisations seeking quick answers to everyday questions or complex market, competitive and technical analyses, can access experienced technical and business analysts and thousands of technical and industry authorities representing virtually every facet of science and technology. Sopheon provides personalised service to help knowledge workers sort out their information needs. It then satisfies those needs by conducting primary and secondary research, including custom, in-depth research projects that synthesize and analyze findings. Backed by thousands of information sources around the globe, as well as by leading-edge technology and methodologies, Sopheon's analysts and experts are uniquely positioned to enable corporations to innovate and solve problems faster than their competitors. Sopheon's research capabilities include a document delivery service that provides users with complete copies of needed print information, such as articles, patents, standards, conference proceedings, unclassified government reports and books.

Information Management Outsourcing. Sopheon applies its research capabilities and information management expertise to the outsourcing of corporate information services. As part of this offering, it conducts assessments that determine the clients' information needs and identify internal and external sources that can meet them. Sopheon sourcing experts then establish relationships with appropriate content suppliers and subsequently

BUSINESS PROCESS OUTSOURCING (BPO) IS EXPECTED TO **GROW TO $301 BILLION** IN 2004. – GARTNER, INC.

assume responsibility for managing those contracts. Research support is typically provided through custom portals that integrate access to Web content, published literature and proprietary information collections with the services of Sopheon's analysts and experts. Analysts assigned to each portal have academic and work backgrounds that match each client's industry and technical competency requirements. The service package includes customised training of end users on how to identify and apply needed information most cost-effectively. Implementation of Sopheon's information management outsourcing capabilities allows clients to reduce the cost of information service support while often expanding the scope of services available to knowledge workers.

Specialized Service Packages. Sopheon supplements its broad research offerings with service packages designed to support specific application areas such as product development and intellectual property (IP) management. The latter offering features access to a team of top patent analysts. Based on their broad source knowledge and extensive, industry-specific experience, these specialists provide users with the targeted intelligence and analysis needed to maximize the return on IP investments. Sopheon's IP competency centers are located in the US and Germany. Similarly, the product development service package provides on-demand technical and business decision support during each stage of product development. Sopheon's experienced research analysts and its proprietary network of industry experts draw on an extensive range of primary and secondary information sources to inform go/kill decisions, ultimately improving time to market and maximising the value of projects in the client's product development portfolio.

"We count on the expertise of Sopheon's patent analysts to ensure that our intellectual property assets build corporate value. Sopheon has earned our confidence by consistently providing timely intelligence and thorough analysis."

Herbert Stark, Head of Chemical Stimulants/R&D, Aventis CropScience

Healthcare Solutions – Precision and Consistency Where They Mean the Most

During the past decade, the amount of electronic information stored and exchanged inside healthcare systems has soared. There are numerous initiatives across Europe and elsewhere that place technology at the center of organised healthcare. Hospitals and clinics are increasingly turning to software-based systems for the management of both medical and non-medical processes, including the implementation of procedures and guidelines that directly impact life or death clinical prognoses, liability claims and issues surrounding budgetary control.

Sopheon has been researching, developing and deploying language-based software for healthcare applications since 1992. The products that comprise Sopheon's Healthcare business were developed largely through advanced research funded by major government, corporate and institutional sponsors. Already in use at hospitals and other medical facilities in mainland Europe, Sopheon's solutions include content creation, management and publication tools, news monitors and analysis technologies. Sopheon's Healthcare business is focused on two principal offerings:

> The **QualiFlow suite** of products supports the entire process of clinical guidelines management and reuse, including authoring, process management, publishing, advanced new-evidence monitoring, and terminology management. The suite enables healthcare providers to comply with the demanding requirements of evidence-based medicine by providing tailored procedural instructions at the point of care and by helping doctors, nurses and other medical practitioners keep up-to-date with the latest medical news and best practices.
>
> The **NormFlow suite** of products adapts Qualiflow technology to the needs of manufacturers in the hi tech and life sciences industries. This offering allows users to more effectively produce, control and distribute documents containing standards and product information that are critical to meeting requirements for compliance management and conformity assessment.

Alliance Strategies

In mid-2001, Sopheon launched its Via ("Valued industry alliance") Program, an initiative that is teaming the company with technology-solutions consultants, implementers and resellers around the world. The goal of the program is to link Sopheon to companies providing complementary products and services that will allow it to meet client demands and implement solutions with speed, precision and comprehensive support anywhere in the world. Sopheon's current network of *Via* partners includes companies such as A.D. Little, Horvath & Partner, The Valen Group, Product Development Consulting, Inc. and Creatifica Associates.

"Getting to market faster and making early kill-decisions on projects that are wasting time and money are critical to improving new product success….Our consultants believe in Accolade because they have been on the other side of launching new products and new ventures, trying to beat the competition with limited resources. It's the right product to give market leaders another leg up."

Gus Valen, President and Managing Partner, The Valen Group

Directors and Advisers

Directors	Barry K. Mence	Executive Chairman
	Andrew L. Michuda	Chief Executive Officer
	Arif Karimjee ACA	Finance Director
	Stuart A. Silcock FCA	Non-executive Director
	Joseph Shuster	Non-executive Director
	Bernard Al	Non-executive Director
	Andrew B. Davis	Non-executive Director
Secretary	Arif Karimjee	
Registered office	Stirling House, Surrey Research Park Guildford Surrey GU2 7RF	
Registered name and number	Registered in England and Wales: Sopheon plc, 3217859	
Auditors	Ernst & Young LLP Apex Plaza Reading RG1 1YE	
Principal bankers	Silicon Valley Bank 3003 Tasman Drive Santa Clara California CA 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 Vintners Place 68 Upper Thames Street London EC4V 3BJ	
Euronext Paying Agent	Dexia Securities Herengracht 182 1001 GJ Amsterdam The Netherlands	
Registrars	Capita IRG Plc Balfour House, 390/398 High Road Ilford, Essex IG1 1NQ	
Financial PR Consultants	Buchanan Consultants 107 Cheapside London EC2V 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 two non-executive directors together with Barry Mence, other than in respect of his own remuneration, and is chaired by Bernard Al. 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 2001 £*	*Total 2000 £*
Executive directors					
B. K. Mence	120,986	4,041	3,600	128,627	114,156
A. L. Michuda (1)	135,736	3,967	2,349	142,052	42,274
A. Karimjee (2)	85,900	700	3,504	90,104	76,319
H. J. M. Rutten (3)	-	-	-	-	58,279
J. M. Macfarlane (3)	-	-	-	-	83,226
R.V. Maddocks (3)	-	-	-	-	81,866
E. R. E. I. Wiebenga (4)	-	-	-	-	3,242
Non-executive directors					
J. M. Shuster (1)	16,624	3,675	332	20,631	6,201
S.A. Silcock	18,000	-	-	18,000	28,949
B.P.F. Al (5)	18,000	-	-	18,000	-
A.M. Davis (6)	1,500	-	-	1,500	-
M. J. Brooke (7)	-	-	-	-	12,000
H. Coltof (3)	-	-	-	-	2,931
	396,746	12,383	9,785	418,914	509,443

(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) Appointed on 8 January 2001
(6) Appointed on 15 November 2001
(7) Resigned on 8 January 2001
(8) Pension contributions are made to individual directors' personal pension schemes.

The emoluments of S.A. Silcock are paid to Lawfords Limited, of which Mr. Silcock is a director. Mr Michuda was eligible to participate in an incentive scheme established at the time of the acquisition of Teltech Resource Network Corporation whereby he received 41,666 Sopheon ordinary shares on 28 December 2001.

Directors' Report

Financial Results

The loss for the year ended 31 December 2001 before interest, tax, depreciation and amortisation (LBITDA) was £11,757,000 (2000 - £6,655,000) on a turnover of £13,963,000 (2000 - £7,763,000). The result for the year, after allowing for a £21,431,000 (2000 - £5,561,000) amortisation and impairment charge in respect of goodwill, both before and after taxation, is a loss of £34,631,000 (2000 - £11,945 000). The directors do not propose to declare a dividend.

Principal Activities

The group's principal activities during the year continued to focus on the provision of software and services that enable organisations to access internal and external information and knowledge more efficiently. Sopheon has also focused its activities increasingly within the market represented by major corporations and their information and process requirements for product development and R&D.

Review of the Business

2001 was a year both of significant challenges and of significant progress for Sopheon. The general economic downturn affected revenues within certain existing accounts, as well as the development of new opportunities. In common with many companies, sales cycles lengthened as markets slowed and it proved a challenging environment in which to generate organic growth. Nonetheless, significant progress was made in refining Sopheon's positioning and corporate development. Two further acquisitions were completed during the year – a division of Aventis Research & Technologies in Germany in June and Orbital Software Holdings plc in the UK in November – deepening our customer base, market reach and our product and technical capabilities. These acquisitions coupled with a convertible bond issue raised £16.5m of capital for the group, which ended the year with cash resources of £13.3m. The process of integrating the businesses acquired over the last two years has advanced rapidly. The organisation has been restructured into two complementary operating divisions – Information Management (IM) representing research analyst services, portal subscriptions and information provision; and Business Process Solutions (BPS) representing software applications and related consultancy services – and the annualised fixed cost base has been reduced by over 25% compared to the interim reported position for the combined group through elimination of duplicated costs and a significant contraction of the workforce. Our flagship product, Accolade, was released and contributed to revenue in the year, with a new version released in December and new orders secured early in 2002, reinforced by the addition of Orbital's Organik solution to our product range. Market conditions have also created fresh opportunities for IM outsourcing services.

Sopheon's consolidated revenues show a £6.2m increase to £14.0m (2000 : £7.8m). This includes a contribution of £2.8m from our new German subsidiary for the six months from 1 July 2001 and £0.1m from Orbital Software Holdings plc for the six-week period from 16 November 2001. Approximately 74% of total revenues came from IM and of this, some 90% represents recurring revenue or sales to existing customers. BPS contributed 26% of revenue during the year. Both areas experienced a difficult year. Certain IM revenues were impacted by customer M&A and restructuring activity, and revenues from bespoke applications and consultancy services, part of BPS, reduced substantially in line with the end of the website construction boom, which was sharper than expected. As planned, this reduction was partially offset by the initial revenues contributed by Accolade licenses and services.

Consolidated EBITDA losses increased to £11.8m (2000: £6.7m) reflecting continued high levels of investment in product development, sales and marketing and implementation capabilities and approximately £1m of redundancy and restructuring costs. Goodwill amortisation was accelerated to reflect the changed market conditions since the acquisitions of AppliedNet and Teltech, resulting in a total goodwill amortisation charge of £21.4m during the year, comprising £12.3m of regular charges and an exceptional impairment charge of £9.1m.

Future Developments

Sopheon intends to continue to focus on, invest in and implement its business model, which is founded on a belief that its products and services will offer persuasive returns on investment and enhanced competitive advantage to customers. This belief is coupled with a drive to increase significantly the proportion of group revenues derived from BPS during 2002. Cash resources going into 2002 have given the business a good foundation with which to implement its business plan, which has the objective of becoming cashflow generative going into 2003. Nevertheless, in conjunction with setting this challenging target, the board continues to maintain a tight grip on costs, and will monitor developments and adjust the operating plan if this is considered appropriate. The group emerges from 2001 a more integrated and focused business, aiming to capitalise on its strengths and concentrate all efforts on revenue growth and operational excellence, to build towards the stated goal of being a profitable provider of software and services to major corporations within the R&D market.

Research & Development

Sopheon's development teams are now based in two key centres, Edinburgh and Denver. These two centres work in close cooperation with a single product calendar, under a single management structure and with the same high quality standards designed to deliver world-class, enterprise strength software.

During the year Sopheon was awarded a European patent in connection with its knowledge management software architecture and methodology originally developed in the early 1990's. The technology portfolio has also been enhanced by Orbital's patented profiling technology. Development work is underway to integrate these technologies into the Accolade system, applying them to the process of creating, publishing and re-using content from knowledge bases and communities of interest built up by an organisation during the product development life cycle. This is to be coupled with tighter integration of IM research portals to enhance linkage to external content and analysis. Internal plans call for an initial version of a "knowledge-centric" Accolade, to be released as version 4.0, around the middle of 2002.

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:

	Share Options		*Ordinary Shares*	
Director	*2001*	*2000*	*2001*	*2000*
B. K. Mence	22,500	-	8,696,457	8,696,457
A. Michuda (appointed on 18 September 2000)	285,675	225,983	41,355	189
A. Karimjee (appointed on 1 February 2000)	112,500	100,000	-	-
S. A. Silcock	-	-	181,383	181,383
S. A. Silcock*	-	-	98,077	98,077
J.M. Shuster (appointed on 18 September 2000)	50,237	50,237	76,186	76,186
B.P.F. Al (appointed on 8 January 2001)	25,000	-	25,000	-
A.M. Davis (appointed on 15 November 2001)	-	-	494,520	-

Of the 8,696,457 ordinary shares mentioned above B. K. Mence beneficially owns and is the registered holder of 4,846,657 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 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 19 June 2001 the directors listed below subscribed for Sopheon Convertible Loan Stock (the "Stock") with detachable warrants. When issued, the Stock was convertible into Sopheon shares at 70p per share. On 7 November 2001, at an Extraordinary General Meeting of holders of the Stock, the conversion rate of the Stock was amended to 46p per share, the price prevailing immediately before the announcement of the offer for Orbital Software Holdings plc. In the event of any further offering of Sopheon shares taking place prior to conversion, whether by way of rights issue, placing, open offer or similar issue, the conversion rate shall be adjusted to the higher of offering price, if lower than 46p, and 31.5p.

The exercise price for the Sopheon warrants is 70p per share.

Name	*Nominal amount of Stock subscribed*	*No.of warrants*
B. K. Mence	£390,000	83,571
A.L. Michuda	£28,000	6,000
A. Karimjee	£17,000	3,643
S.A. Silcock	£100,000	21,429
B.P.F. Al	£25,000	5,357

Each of the above was entitled at any time prior to 31 December 2001 to subscribe for a further amount of Stock, with detachable warrants, equal to one third of the nominal value of his existing holding, on the same terms as the existing stock, save that the conversion rate would be 30% higher than that applicable to the existing Stock and the exercise price for the warrants would be 91p per share. None of the stockholders has subscribed for further Stock.

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 2000*	*Granted during year*	*`Exercised during year*	*At 31 December 2001*
B.K. Mence (1)	2 May 2001	77.5p	-	22,500	-	22,500
A. L. Michuda (2)	15 September 2000	184p	187,600	-	-	187,600
A. L. Michuda (2)	15 September 2000	230p	7,846	-	-	7,846
A. L. Michuda (2)	15 September 2000	322p	12,501	-	-	12,501
A. L. Michuda (2)	15 September 2000	368p	1,756	-	-	1,756
A. L. Michuda (3)	2 October 2000	427.5p	16,280	-	-	16,280
A. L. Michuda (3)	1 January 2001	160p	-	5,030	-	5,030
A.L. Michuda (3)	2 May 2001	77.5p	-	54,662	-	54,662
A. Karimjee (1)	22 November 1999	150p	100,000	-	-	100,000
A. Karimjee (1)	2 May 2001	77.5p	-	12,500	-	12,500
J. Shuster (2)	15 September 2000	184p	24,779	-	-	24,779
J. Shuster (2)	15 September 2000	230p	1,502	-	-	1,502
J. Shuster (2)	15 September 2000	276p	1,502	-	-	1,502
J. Shuster (2)	15 September 2000	368p	17,191	-	-	17,191
J. Shuster (3)	2 October 2000	427.5p	5,263	-	-	5,263
B.P.F. Al (1)	2 May 2001	77.5p	-	25,000	-	25,000

(1) Exercisable between the third and tenth anniversary of the date of grant.
(2) Fully vested options, which were granted as part of the acquisition of Teltech Resource Network Corporation.
(3) One fourth of these options becomes exercisable on each of the first four anniversaries of the date of grant and they expire on the tenth anniversary of the date of grant.

The mid-market price of Sopheon ordinary shares at 28 December 2001 was 28.5p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 160p to 24.5p.

Save as disclosed above, 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 5 February 2002 were 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	10.6
Friends Ivory & Sime plc	4,525,453	5.5
3i Group plc	3,944,145	4.8
Aventis Research & Technologies GmbH & Co KG	3,471,191	4.2
A. Slater	3,068,820	3.7
C. Smeaton	3,068,820	3.7

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 18.

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 2001, the group had an average of 55 days' purchases outstanding in trade creditors.

Derivatives and other financial instruments

The group's principal financial instruments comprise the 6% Convertible Loan Stock 2004, together with 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.

It is, and has been throughout the period under review, the group's policy that no trading in derivatives and other financial instruments shall be undertaken. However, the group is considering the use of forward exchange contracts to assist with management of foreign exchange exposures.

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 2000 and 2001. The group also monitors the market price risk arising from all financial investments. The magnitude of this risk that has arisen during the period is detailed in Note 20.

Interest rate risk

The group has overdraft facilities and lines of credit in UK Sterling, US Dollar and Euros 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, US Dollars or Euros 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 USA, Germany and the Netherlands, which give rise to short term creditors, debtors and cash balances in US Dollars and Euros, the group's balance sheet can be affected by movements in the US Dollar/Sterling and Euro/Sterling exchange rates.

Auditors

On 29 June 2001, Ernst & Young transferred its business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. With effect from that date, the directors have exercised their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP. A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Approved by the Board on 3 April 2002 and signed on its behalf by

A. Karimjee
Secretary

Statement of Directors' Responsibilities In Respect Of The Financial Statements

Company law requires the directors to prepare financial statements 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 period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements 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 financial statements 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.

Independent Auditors' Report To The Members Of Sopheon plc

We have audited the group's financial statements for the year ended 31 December 2001, which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2001 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 LLP
Registered Auditor
Reading

3 April 2002

Group Profit And Loss Account For The Year Ended 31 December 2001

	Notes	Continuing Operations 2001 £'000	Acquisitions 2001 £'000	Total 2001 £'000	2000 £'000	1999 £'000
TURNOVER	2	10,966	2,997	13,963	7,763	1,510
Cost of sales		(8,255)	(1,931)	(10,186)	(5,402)	(983)
GROSS PROFIT		2,711	1,066	3,777	2,361	527
Sales and marketing expenses		(6,654)	(627)	(7,281)	(3,450)	(760)
Research and development expenditures		(2,830)	(180)	(3,010)	(3,321)	(878)
Amortisation and impairment charges in respect of goodwill		(21,423)	(8)	(21,431)	(5,561)	(323)
Other administrative expenses		(5,591)	(1,201)	(6,792)	(2,759)	(582)
Total administrative expenses		(29,844)	(1,389)	(31,233)	(11,641)	(1,783)
OPERATING LOSS	3	(33,787)	(950)	(34,737)	(12,730)	(2,016)
Share of operating loss of associated undertaking				(63)	(76)	-
Interest receivable				373	950	62
Interest payable and similar charges	5			(204)	(89)	(118)
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION				(34,631)	(11,945)	(2,072)
Loss per share - basic and diluted (pence)	8			(76.2p)	(33.4p)	(10.1p)
LOSS ON AN EBITDA BASIS				(11,757)	(6,655)	(1,654)

EBITDA is defined in Note 1 to the Accounts.

GROUP STATEMENT OF TOTAL RECOGNIZED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2001

	2001 £'000	2000 £'000	1999 £'000
Loss on ordinary activities after taxation	(34,631)	(11,945)	(2,072)
Exchange difference on retranslation of net assets of subsidiary undertakings	31	100	(45)
Total recognized gains and losses relating to the year	(34,600)	(11,845)	(2,117)

Group Balance Sheet At 31 December 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Intangible assets			
Goodwill	9	11,124	30,945
Less: Negative goodwill	9	(277)	-
		10,847	30,945
Tangible Assets	10	2,159	2,387
Investments	11	46	260
		13,052	33,592
CURRENT ASSETS			
Debtors	12	3,592	4,610
Cash at bank and in hand	13	13,344	7,925
		16,936	12,535
CREDITORS: amounts falling due within one year	14	(8,584)	(7,809)
NET CURRENT ASSETS		8,352	4,726
TOTAL ASSETS LESS CURRENT LIABILITIES		21,404	38,318
CREDITORS: amounts falling due after more than one year	15	(25)	(22)
6% Convertible Unsecured Loan Stock 2004	15	(2,553)	-
PROVISIONS FOR LIABILITIES AND CHARGES	16	(461)	-
		18,365	38,296
CAPITAL AND RESERVES			
Called up share capital	18	4,116	4,816
Shares to be issued	19	465	630
Share premium account	19	45,372	43,320
Merger reserve	19	18,384	7,940
Other reserves	19	5,455	2,417
Profit and loss account	19	(55,427)	(20,827)
Shareholders' funds (all equity interests)		18,365	38,296

Approved by the Board on 3 April 2002

B. K. Mence
Director

A. Karimjee
Director

Company Balance Sheet At 31 December 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Investments	11	23,477	39,422
CURRENT ASSETS			
Debtors	12	14	14,545
Cash at bank and in hand		4,839	7,318
		4,853	21,863
CREDITORS: amounts falling due within one year	14	(1,198)	(1,259)
NET CURRENT ASSETS		3,655	20,604
TOTAL ASSETS LESS CURRENT LIABILITIES		27,132	60,026
CREDITORS: amounts falling due after more than one year	15	(6,848)	-
		20,284	60,026
CAPITAL AND RESERVES			
Called up share capital	18	4,116	4,816
Shares to be issued	19	465	630
Share premium account	19	45,372	43,320
Merger reserve	19	10,619	7,940
Other reserves	19	5,455	2,417
Profit and loss account	19	(45,743)	903
Shareholders' funds (all equity interests)		20,284	60,026

Approved by the Board on 3 April 2002

B. K. Mence
Director

A. Karimjee
Director

Group Statements Of Cash Flows For The Year Ended 31 December 2001

	Notes	2001 £'000	2000 £'000	1999 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	3	(11,224)	(8,793)	(1,278)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		373	950	62
Interest paid		(204)	(88)	(116)
Interest element of finance lease rental payments		-	(1)	(2)
		169	861	(56)
CAPITAL EXPENDITURE & FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets		(201)	(954)	(52)
ACQUISITIONS AND DISPOSALS				
Purchase of subsidiary undertakings		(668)	(11,962)	(179)
Net cash acquired with subsidiary undertakings		13,705	(155)	389
Purchase of investment in associated undertaking		-	(164)	-
		13,037	(12,281)	210
MANAGEMENT OF LIQUID RESOURCES				
Increase in short term deposits		(3,512)	(267)	(6,602)
NET CASH OUTFLOW BEFORE FINANCING		(1,731)	(21,434)	(7,778)
FINANCING				
Issues of ordinary share capital		1,567	20,222	8,265
Issue of convertible loan stock		2,553	-	-
New long-term loan		-	-	4
Repayment of long-term loans		(36)	(30)	-
Repayment of capital element of finance lease		(1)	(8)	(16)
		4,083	20,184	8,253
INCREASE/(DECREASE) IN CASH	13	2,352	(1,250)	475

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 Sopheon GmbH (formerly the Technology and Information Services Division of Aventis Research & Technologies) and of Orbital Software Holding plc and its subsidiaries have been included, using the acquisition method of accounting, since their respective dates of acquisition, 29 June 2001 and 15 November 2001.

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 capitalised 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 capitalised and amortised on a straight line basis over its estimated useful economic life, which in all cases 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 amortised 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 recognised 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. One of its subsidiary companies, Sopheon GmbH, is committed to providing certain pensions based on final pensionable salary. Its pension liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities.

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 capitalised 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 amortisation 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 software products together with associated implementation and consultancy services and (b) the provision of information and research services. The group results are analysed between three geographical markets, the United States, the United Kingdom and the rest of Europe.

Analysis of turnover by area of activity

	Continuing Operations 2001 £'000	Acquisitions 2001 £'000	Total 2001 £'000	2000 £'000	1999 £'000
Software and consultancy	3,147	507	3,654	4,912	1,510
Information and research services	7,819	2,490	10,309	2,851	-
	10,966	2,997	13,963	7,763	1,510

Analysis of operating loss by area of activity

	Continuing Operations 2001 £'000	Acquisitions 2001 £'000	Total 2001 £'000	2000 £'000	1999 £'000
Software and consultancy	427	292	719	1,406	527
Information and research services	2,284	774	3,058	955	-
Gross margin	2,711	1,066	3,777	2,361	527
Sales and marketing expenses	(6,654)	(627)	(7,281)	(3,450)	(760)
Administrative expenses (including goodwill amortisation and impairment charge)	(29,844)	(1,389)	(31,233)	(11,641)	(1,783)
Operating loss	(33,787)	(950)	(34,737)	(12,730)	(2,016)

Analysis of turnover by geographical destination

	2001 £'000	2000 £'000	1999 £'000
United Kingdom	2,026	2,965	693
Rest of Europe	3,239	1,339	777
North America	8,471	3,459	40
Rest of World	227	-	-
	13,963	7,763	1,510

Analysis of turnover and operating loss by geographical origin

	Operating loss			Turnover		
	2001 £'000	2000 £'000	1999 £'000	2001 £'000	2000 £'000	1999 £'000
United Kingdom	9,016	4,934	346	2,253	3,942	636
Rest of Europe	1,651	1,735	1,414	3,239	500	874
United States of America	24,070	6,061	256	8,471	3,321	-
	34,737	12,730	2,016	13,963	7,763	1,510

Analysis of net assets by geographical origin

	2001 £'000	2000 £'000	1999 £'000
United Kingdom	602	5,182	8,054
Rest of Europe	1,033	476	89
United States of America	8,501	25,320	(76)
Unallocated cash and loans at group level	8,229	7,318	5,412
	18,365	38,296	13,479

3. OPERATING LOSS

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

	2001 £'000	2000 £'000	1999 £'000
Auditors' remuneration - audit services	90	67	34
Auditors' remuneration - non audit services	26	19	13
Research and development expenditure written off	3,010	3,321	878
Eureka and other EC subsidies	(19)	(78)	(315)
Foreign exchange (gains)/losses	(20)	(645)	16
Amortisation of goodwill	12,288	5,561	323
Impairment charge in respect of goodwill	9,143	-	-
Depreciation of owned assets	1,175	405	74
Depreciation of assets held under finance leases	-	4	9
Operating lease rentals - land and buildings	916	411	103
Operating lease rentals – equipment and vehicles	191	173	84

During 2001 £95,000 (2000 £114,000 and 1999 £64,000) was charged by the auditors in respect of due diligence and other work in connection with corporate transactions which has been capitalised or written off to share premium as appropriate.

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

	2001 £'000	2000 £'000	1999 £'000
Operating loss	(34,737)	(12,730)	(2,016)
Depreciation	1,175	409	83
Amortisation of goodwill	12,288	5,561	323
Impairment charge in respect of goodwill	9,143	-	-
(Increase)/decrease in debtors	1,669	(453)	(338)
(Decrease)/increase in creditors and provisions	(762)	(1,580)	670
Net cash outflow from operating activities	(11,224)	(8,793)	(1,278)

4. STAFF COSTS

	2001 £'000	2000 £'000	1999 £'000
Wages and salaries	12,506	6,834	1,231
Social security costs	1,082	579	124
Other pension costs	299	173	42
	13,887	7,586	1,397

The fees and emoluments of all directors were as follows:

	2001 £'000	2000 £'000	1999 £'000
Fees and emoluments	409	490	333
Pension contributions	10	19	15
	419	509	348

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

	2001 £'000	2000 £'000	1999 £'000
Salary and fees	136	107	78
Benefits	4	3	16
Pension contributions to defined contribution scheme	2	4	7
Total	142	114	101

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

	2001 Number	2000 Number	1999 Number
Development and operations	164	79	26
Sales and management	94	71	14
	258	150	40

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 *£'000*	*2000* *£'000*	*1999* *£'000*
Bank loans and overdrafts	115	49	39
Convertible loan stock	89	39	78
Finance charges on finance leases	-	1	1
	204	89	118

6. TAXATION

There was no tax charge for 2001, 2000 or 1999. 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. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company for the year ended 31 December 2001 (which includes a provision of £54,670,000 against the company's investment in and loans to subsidiary companies) was £54,411,000 (2000 - profit £908,000 and 1999 - £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 £34,631,000 (2000 - £11,945,000 and 1999 £2,072,000 as restated), and on 45,471,220 (2000 - 35,732,477 and 1999 - 20,565,985) 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 and warrants and the conversion of the 6% Convertible Loan Stock 2004 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	Negative goodwill £'000
Cost		
At 1 January 2001	36,751	-
Additions	1,509	(332)
At 31 December 2001	38,260	(332)
Amortisation		
At 1 January 2001	5,806	-
Provided during the year	12,265	(55)
Impairment charge	9,065	-
At 31 December 2001	27,136	(55)
Net book value		
At 31December 2001	11,124	(277)
At 31December 2000	30,945	-

The impairment charge results from an evaluation of the recoverable value of goodwill, carried out in accordance with the requirements of Financial Reporting Standard 11, and using a discount rate of 15% per annum.

10. TANGIBLE FIXED ASSETS

Group only

	Computer Equipment £'000	Furniture & fittings £'000	Internet Portals £'000	Total £'000
Cost				
At 1 January 2001	1,959	438	820	3,217
Acquired with subsidiary undertakings	586	110	-	696
Additions	149	52	-	201
Disposals	(2)	(9)	-	(11)
Exchange adjustments	18	1	22	41
At 31 December 2001	2,710	592	842	4,144
Depreciation				
At 1 January 2001	662	145	23	830
Provided during the year	687	193	295	1,175
Disposals	-	(8)	-	(8)
Exchange adjustments	(7)	(2)	(3)	(12)
At 31 December 2001	1,342	328	315	1,985
Net book value				
At 31 December 2001	1,368	264	527	2,159
At 31 December 2000	1,297	293	797	2,387

The net book value of furniture and fittings above includes an amount of £Nil (2000: £9,000) 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 2001	103	157	260
Share of retained loss	(63)	-	(63)
Amortisation of goodwill	-	(79)	(79)
Impairment charge	-	(78)	(78)
Exchange difference	6	-	6
At 31 December 2001	46	-	46

The investment in associated undertaking is a 25% interest in Pro-GRAM BV, a joint venture with three Dutch teaching hospitals, involved in the provision of software solutions for the medical and healthcare market.

Company

Investment in subsidiary undertakings	*£'000*
Cost	
At 1 January 2001	39,422
Additions at cost	14,123
At 31 December 2001	53,545
Amounts provided:	
At 1 January 2001	-
Amounts provided in year	30,068
At 31 December 2001	30,068
Net book value at 31 December 2001	23,477
Net book value at 31 December 2000	39,422

The amounts provided against investments in subsidiary undertakings result from an evaluation of the recoverable value of the investments, carried out in accordance with Financial Reporting Standard 11, and using a discount rate of 15%.

On 29 June 2001 the Group completed the acquisition of Sopheon GmbH. Sopheon GmbH was incorporated on 9 February 2001 to acquire the Technology and Information Services Division of Aventis Research & Technologies GmbH & Co KG. The consideration for the acquisition comprised 822,598 ordinary shares of Sopheon plc as well as attributable costs of £80,000. In addition deferred consideration estimated at £465,000 is payable in the form of Sopheon shares if Sopheon GmbH meets certain profit targets. The market value of Sopheon shares on the date of completion was 58.5p and accordingly the total cost recorded in respect of the acquisition was £1,026,000.

Analysis of the acquisition of Sopheon GmbH:

	Book value and fair value £'000
Net assets at the date of acquisition:	
Tangible fixed assets	302
Deferred costs	190
Cash	1,828
	2,320
Creditors falling due within one year	
Accruals	(241)
Deferred subscription income	(250)
Creditors falling due in more than one year	
Pension provision	(471)
Net assets	1,358
Goodwill arising on acquisition	(332)
	1,026

Discharged by:	
Fair value of shares issued	481
Fair value of deferred consideration	465
Attributable costs	80
	1,026

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

The deferred consideration is payable in the form of Sopheon shares and is dependant upon the profitability of Sopheon GmbH in the years 2001 to 2003. The maximum amount payable is Euro 1,533,000.

During the period from acquisition, Sopheon GmbH contributed £218,000 to the group's net operating cash outflow and utilised £15,000 for capital investment.

Including the unaudited results of the predecessor business, Sopheon GmbH had turnover of £5,817,000 and a profit before tax of £54,000 in the year ended 31 December 2001. Comparatives for the year ended 31 December 2000 are not available, since the predecessor business formed part of a larger division of the vendor. The summarised profit and loss account for the period from 1 January 2001 to 29 June 2001 (the date of acquisition) is as follows:

	£'000
Turnover	2,952
Profit before tax	46

There were no recognised gains and losses other than the profit for the period.

11. INVESTMENTS (continued)

Acquisition of Orbital Software Holdings plc ("Orbital")

On 22 October 2001 the Group announced an agreed share offer for the whole of the share capital of Orbital, on the basis of eight Sopheon shares for every nine Orbital shares. The offer was declared wholly unconditional on 15 November 2001. The consideration for the acquisition comprised 40,016,715 ordinary shares of Sopheon plc, as well as attributable costs of £931,000. In addition holders of Orbital in-the-money share options accepted proposals whereby such options were exchanged for 660,066 Sopheon share options at 6.193p per share. The market value of Sopheon shares on the date of completion was 30p and accordingly the total cost recorded in respect of the acquisition was £13,096,000.

Analysis of the acquisition of Orbital:

	Book value and fair value £'000
Net assets at the date of acquisition:	
Tangible fixed assets	394
Debtors	417
Short-term bank deposits	10,208
Cash	1,669
	12,688
Creditors falling due within one year	(1,076)
Creditors falling due in more than one year	(25)
Net assets	11,587
Goodwill arising on acquisition	1,509
	13,096

Discharged by:	
Fair value of shares issued	12,005
Fair value of share options issued	157
Attributable costs	934
	13,096

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

During the period from acquisition, Orbital contributed £817,000 to the group's net operating cash outflow and utilised £2,000 for capital investment.

For the nine months to 31 December 2001, Orbital had turnover of £359,000 and a loss before tax of £6,934,000 (year ended 31 March 2001 turnover of £1,090,000 and loss of £5,874,000). The summarised unaudited profit and loss account for the period from 1 April 2001 to 15 November 2001 (the date of acquisition) is as follows:

	£'000
Turnover	227
Operating loss	(6,587)
Interest receivable	510
Interest payable	(3)
Loss before tax	(6,080)

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

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 and those marked with an obelus† are held via Orbital Software Holdings plc.

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%	Information management services, software sales and services
Sopheon Corporation Delaware USA	Common Stock	100%	Software development
Orbital Software Inc. † Delaware, USA	Common Stock	100%	Software sales and services
Sopheon GmbH Germany	Ordinary Shares	100%	Information management services, software sales and services
Sopheon NV The Netherlands	Ordinary Shares	100%	Software sales and services
Lessenger BV The Netherlands	Ordinary Shares	100%	Software sales and services
Sopheon UK Ltd United Kingdom	Ordinary Shares	100%	Software sales and services
Orbital Software Holdings plc United Kingdom	Ordinary Shares	100%	Holding company
Sopheon Edinburgh Ltd † (formerly Orbital Software Group Ltd) United Kingdom	Ordinary Shares	100%	Software development
Orbital Software Europe Ltd † United Kingdom	Ordinary Shares	100%	Software sales and services
Network Managers (UK) Ltd* United Kingdom	Ordinary Shares	100%	Dormant
AppliedNet Ltd* (formerly Future Tense UK Ltd) United Kingdom	Ordinary Shares	100%	Dormant
Future Tense Ltd* United Kingdom	Ordinary Shares	100%	Dormant
Polydoc Ltd	Ordinary Shares	100%	Dormant
Applied Network Technology Ltd* United Kingdom	Ordinary Shares	100%	Employee Share Ownership Trust

12. DEBTORS

Group

	2001 £'000	2000 £'000
Trade debtors	2,489	3,162
Other debtors	121	62
Prepayments and accrued income	982	1,386
	3,592	4,610

Company

	2001 £'000	2000 £'000
Amounts owed by subsidiary undertakings (net of provisions)	-	14,107
Prepayments	14	438
	14	14,545

A full provision has been made against amounts totalling £24,602,000 owed to the company by subsidiary undertakings, which 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.

	2001 £'000	2000 £'000	1999 £'000
Increase/(decrease) in cash	1,907	(93)	475
Decrease/(increase) in overdrafts and lines of credit	445	(1,157)	-
Net increase/(decrease) in cash and cash equivalents	2,352	(1,250)	475
Issue of convertible loan stock	(2,553)	-	-
Repayment of term loans	36	39	4
New loans	-	-	(8)
Repayments of capital elements of finance leases	1	8	16
Cash inflow from change in liquid resources	3,512	267	6,602
Change in net debt resulting from cash flows	3,348	(936)	7,089
Loans and finance leases acquired with subsidiary	(63)	-	(92)
Conversion of convertible loan stock	-	1,571	-
Exchange difference	(27)	30	-
Movement in net funds/(debt)	3,258	665	6,997
Net funds/(debt) at 1 January	6,745	6,080	(917)
Net funds at 31 December	10,003	6,745	6,080

(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 2000	747	7,004	-	(1,571)	(100)	6,080
Cashflow	(93)	267	(1,127)	-	47	(906)
Conversion of convertible loan stock	-	-	-	1,571	-	1,571
At 31 December 2000	654	7,271	(1,127)	-	(53)	6,745
Cashflow	1,907	3,512	445	-	37	5,901
Exchange difference	-	-	(27)	-	-	(27)
Issue of convertible loan stock	-	-	-	(2,553)	-	(2,553)
Acquisitions	-	-	-	-	(63)	(63)
At 31 December 2001	2,561	10,783	(709)	(2,553)	(79)	10,003

14. CREDITORS: amounts falling due within one year

Group

	2001 £'000	2000 £'000
Overdrafts and bank lines of credit	709	1,127
Current instalments due on bank loans	54	30
Obligations under finance leases and hire purchase contracts	-	1
Trade creditors	2,781	2,190
Other taxes and social security costs	282	177
Accruals and deferred income	4,528	3,951
Other creditors	230	333
	8,584	7,809

The bank line of credit is secured against the trade debtors of Sopheon-Teltech and bears interest at a rate of 3% above US prime rate.

Company

	2001 £'000	2000 £'000
Other creditors	496	70
Other taxes and social security costs	12	12
Accruals	690	306
Amounts owed to subsidiary undertakings	-	871
	1,198	1,259

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

Group

	2001 £'000	2000 £'000
6% Convertible Unsecured Loan Stock 2004	2,553	-
Bank loans: amounts falling due		
From one to two years	25	22
	2,578	22

Company

	2001 £'000	2000 £'000
Amount owed to subsidiary undertaking	4,295	-
6% Convertible Unsecured Loan Stock 2004	2,553	-
	6,848	-

£2.6 million nominal of 6% Convertible Unsecured Loan Stock 2004 "the Stock"), with 557,143 detachable warrants to subscribe for Sopheon shares, was issued at par on 20 June 2001. The Stock is convertible at any time prior to redemption at a conversion rate of 46p per Sopheon share. In the event that the Company makes an offer of Sopheon shares by way of rights issue, placing, open offer or similar issue at an issue price of less than 46p per share, the conversion rate will be adjusted to equal the offering price for such Sopheon shares, provided that the conversion rate shall not be reduced below 31.5p per share. The exercise price of the warrants is 70p per Sopheon share. The Stock is redeemable on 30 June 2004 or earlier at the Company's option.

The bank loans comprise (i) a sterling asset purchase facility at an implicit rate of 8.8% and is repayable in 36 equal instalments from October 1999 and (ii) a sterling loan made under the Small Companies Loan Guarantee Scheme, bearing interest at 3% over bank base rate, in respect of which the lender holds a guarantee for 85% of the loan facility from the Department of Trade and Industry.

16. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	2001 £'000	2000 £'000
Pension provision		
At 1 January 2001	-	-
Acquisitions during year	461	-
At 31 December 2001	461	-

The pension provision represents the commitment of Sopheon GmbH to provide certain pensions based on final salary. The provision represents an actuarial calculation of the pension liabilities, as at the date of acquisition of Sopheon GmbH, based upon the following actuarial assumptions:

Increase in salaries	2.75%
Discount rate	6.25%
Inflation assumption	1.75%

17. OBLIGATIONS UNDER LEASES

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

At 31 December 2000 and 2001 the group had annual commitments under operating leases as set out below.

Group

	Land & Buildings 2001 £'000	Other 2001 £'000	Land & Buildings 2000 £'000	Other 2000 £'000
Operating leases which expire:				
within one year	450	43	69	12
in two to five years	684	105	719	119
Totals	1,134	148	788	131

The company had no commitments under operating leases as at 31 December 2000 and 2001.

18. SHARE CAPITAL

Authorised	*2001 Number*	*2001 £*	*2000 Number*	*2000 £*
Ordinary shares of 5p each	125,000,000	6,250,000	60,000,000	3,000,000
Deferred shares of 15p each	-	-	19,228,885	2,884,333

Allotted, called up and fully paid	*2001 Number*	*2001 £*	*2000 Number*	*2000 £*
Ordinary shares of 5p each	82,311,575	4,115,579	38,624,913	1,931,246
Deferred shares of 15p each	-	-	19,228,885	2,884,333
		4,115,579		4,815,579

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, realising 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.

On 30 June 2000 the authorised 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 £1,571,920 5% convertible loan stock.

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 pursuant to the exercise of share options, comprising 120,000 shares at 120p each, 30,000 shares at 150p each and 20,000 shares at 177.5p each .

On 1 June 2001 17,441 ordinary shares were issued for cash at 8.6p per share pursuant to the exercise of a share option and 7,114 ordinary shares were issued at 146p by way of deferred consideration to the vendors of Lessenger BV

On 28 June 2001 3,471,191 ordinary shares were issued to Aventis Research & Technologies GmbH & Co. KG, of which 822,598 were issued at 58.5p as consideration for the acquisition of Sopheon GmbH and 2,648,593 were issued for cash at 58.5p per share.

On 29 June 2001 at the Annual General Meeting shareholder approved the purchase for cancellation of the issued deferred shares of 15p each in the Company. Following such cancellation, the unissued deferred shares of 15p each were subdivided and re-designated as unissued ordinary shares of 5p each.

On 12 September 2001 20,000 ordinary shares were issued for cash at 20p per share pursuant to the exercise of a share option.

On 7 November 2001 at an Extraordinary General Meeting convened to approve the acquisition of Orbital Software Holdings plc, the authorised share capital of the Company was increased to £6,250,000 consisting of 125,000,000 ordinary shares of 5p each.

On 15 November 2001, the offer to acquire the share capital of Orbital Software Holdings plc ("Orbital") was declared wholly unconditional. On 4 December 2001 Sopheon plc, having received acceptances to the offer in respect of over 90% of the issued share capital of Orbital, initiated the procedure under section 429 of the Companies Act 1985 to acquire compulsorily the remaining Orbital shares. Pursuant to the offer, 40,016,715 ordinary shares were issued at 30p per share as consideration for the acquisition of 100% of the issued share capital of Orbital.

On 23 November 2001 18,941 ordinary shares were issued for cash pursuant to the exercise of share options, comprising 1,500 shares at 184p each and 17,441 shares at 8.6p each.

On 11 December 2001 17,441 ordinary shares were issued for cash at 8.6p per share pursuant to the exercise of a share option.

On 21 December 2001 8,720 ordinary shares were issued for cash at 8.6p per share pursuant to the exercise of a share option.

On 28 December 2001 109,099 ordinary shares were issued at 565p per share by way of incentive payments to certain US members of staff, including 41,666 ordinary shares issued to A. Michuda, a director of Sopheon plc, pursuant to terms agreed at the time of the acquisition of Teltech Resource Network Corporation

Contingent rights 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.

On 19 June 2001 Sopheon issued £2.6 million of Convertible Unsecured Loan Stock (the "Stock") with 557,143 detachable warrants to subscribe for Sopheon shares. On 7 November 2001 at an Extraordinary General Meeting of holders of the Stock, the conversion rate of the Stock was reduced to 46p, the market price for Sopheon shares prevailing immediately before the announcement of the offer for Orbital. In the event of any further offering of Sopheon shares taking place prior to conversion, whether by way of rights issue, placing, open offer or similar issue, the conversion rate shall be adjusted to the higher of offering price, if lower than 46p, and 31.5p. The warrants are exercisable at 70p per share during the period 20 June 2002 to 19 June 2003.

Employee share option schemes

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, the Sopheon 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.

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 (USA) Stock Option Plan, under which share options can be granted either as qualifying Incentive Stock Options (ISOs) or as Non-Qualifying Options (NQOs).

At the Extraordinary General Meeting held on 7 November 2001 shareholders approved a maximum of 4,250,000 Sopheon ordinary shares, plus such number of Sopheon options as may fall to be issued as replacement options to holders of Orbital share options, over which options could be granted under any employee share option scheme.

Pursuant to the acquisition of Orbital Software Holdings plc in November 2001, share options granted under the Orbital Software Group Limited Share Option Scheme were released in exchange for the grant of 660,066 new options over Sopheon ordinary shares. These options remain subject to the rules of the Orbital Software Group Limited Share Option Scheme. Accordingly, the maximum limit referred to in the previous paragraph increased from 4,250,000 to 4,910,066 Sopheon shares over which options may be granted.

18. SHARE CAPITAL (continued)

A summary of options granted under the share option schemes at 31 December 2001 is set out below.

Year of grant	*Number*	*Exercise Price (£)*	*Exercise Period From*	*To*
1996	40,000	0.2000	28-08-96	21-07-06
1997	1,000	1.9750	01-06-00	01-06-07
1998	24,000	1.7000	29-06-98	29-06-03
1998 (1)	100,284	0.0860	29-12-01	29-12-08
1999	2,500	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)	43,600	0.8732	01-10-02	01-10-09
1999 (2) (3)	52,500	1.5000	03-11-00	03-11-09
1999	10,000	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	3,000	6.0725	25-01-01	25-01-10
2000 (2)	2,000	7.1800	31-01-01	31-01-10
2000 (2)	10,000	9.6000	08-02-01	08-02-10
2000 (2)	13,500	4.9500	28-06-01	28-06-10
2000 (2)	25,000	5.0000	26-06-01	26-06-10
2000	62,000	4.9500	28-06-03	28-06-10
2000	15,000	4.2750	02-10-03	02-10-10
2000 (2)	110,261	4.2750	02-10-01	02-10-10
2000 (2)	10,000	3.7250	15-11-01	15-11-10
2000	5,000	1.6000	31-12-03	31-12-10
2000 (2)	122,900	1.6000	31-12-01	31-12-10
2001	36,000	1.0000	01-04-02	01-04-03
2001	94,000	0.7750	02-05-04	02-05-11
2001(2)	215,939	0.7750	02-05-02	02-05-11
2001 (4)	209,443	0.0619	14-09-01	14-09-08
2001 (4)	450,623	0.0619	03-08-00	03-08-10

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

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

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

(4) Arising from options held by employees of Orbital Software Holdings plc and rolled over into Sopheon options.

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 2001 73,555 of such options had lapsed, 1,500 have been exercised and 643,237 remained outstanding, in respect of which the aggregate exercise price was £1.4 million.

19. SHAREHOLDERS' FUNDS

Group

	Share Capital £'000	Shares to be Issued £'000	Share Premium Account £'000	Merger Reserve £'000	Other Reserves £'000	Profit & Loss Account £'000
At 1 January 1999	3,773	15	2,213	-	-	(6,865)
Arising on share issues	718	-	7,807	7,940	-	-
Adjustment to earn out	-	(5)	-	-	-	-
Retained loss for the year	-	-	-	-	-	(2,072)
Exchange differences	-	-	-.	-	-	(45)
At 31 December 1999	4,491	10	10,020	7,940	-	(8,982)
Arising on share issues	325	-	33,300		-	-
Shares to be issued	-	620	-	-	-	-
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)
Purchase and cancellation of deferred shares	(2,884)	-	-	-	2,884	-
Arising on share issues	2,184	(630)	2,052	10,444	(6)	-
Shares to be issued	-	465	-	-	-	-
Issue of share options	-	-	-	-	160	-
Retained loss for the year	-	-	-	-	-	(34,631)
Exchange differences	-	-	-	-	-	31
At 31 December 2001	4,116	465	45,372	18,384	5,455	(55,427)

The adjustment to earn out represents an adjustment to contingent consideration payable in respect of Lessenger Associates BV, acquired in December 1998.

19. SHAREHOLDERS' FUNDS (continued)

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 2000	4,491	10	10,020	7,940	-	(5)
Arising on share issues	325	-	33,300	-	-	-
Shares to be issued	-	620	-	-	-	-
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
Purchase and cancellation of deferred shares	(2,884)	-	-	-	2,884	-
Arising on share issues	2,184	(630)	2,052	10,444	(6)	
Shares to be issued	-	465	-	-	-	-
Issue of share options	-	-	-	-	160	-
Retained loss for the year	-	-	-	-	-	(54,411)
Transfer of impairment loss to merger reserve	-	-	-	(7,765)	-	7,765
At 31 December 2001	4,116	465	45,372	10,619	5,455	(45,743)

Other reserves comprise (for both Group and Company):

	2001 £'000	*2000 £'000*
Capital redemption reserve	2,884	-
Reserve arising from issues of share options in connection with acquisitions	2,571	2,417
	5,455	2,417

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The group's approach to managing financial risk is described in the Directors' Report. Disclosures made in this note, other than currency disclosures, exclude short term debtors and creditors.

Interest rate risk profile of financial liabilities

The financial liabilities of the group at each year-end are set out below.

	2001 *£'000*	*2000* *£'000*
Floating rate line of credit – US Dollar	641	1,011
Floating rate overdraft – Sterling	68	116
Fixed rate loans – Sterling	78	53
Fixed rate 6% convertible unsecured loan stock 2004	2,553	-
	3,340	1,180

Other than the 6% Convertible Loan Stock 2004, 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

	2001 *£'000*	*2000* *£'000*
Floating rate		
Sterling	10,511	7,271
Euro	1,805	-
	12,316	7,271
Non-interest bearing		
Sterling	806	198
US Dollar	115	217
Euro	107	239
	1,028	654
Total financial assets	13,344	7,925

Currency exposures

The table below shows the group's transactional currency exposures that give rise to the net currency gains and losses recognised 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		
	US dollar *£'000*	*Euro* *£'000*	*Total* *£'000*
2000 Sterling	101	25	126
2001 Sterling	10	272	282

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

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	
	2001	*2000*
	£'000	*£'000*
Cash and short term deposits	13,344	7,925
Bank overdrafts and lines of credit	(709)	(1,127)
Current portion of long-term borrowings	(54)	(31)
Long-term borrowings	(25)	(22)
Convertible Unsecured Loan Stock 2004	(2,553)	-

21. 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 the Netherlands.

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