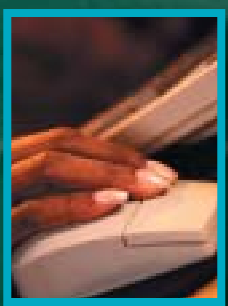
SOPHEON 2002



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.

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Group Profile

Sopheon is an international provider of software and services that enable organizations to improve their return on investments in innovation and product development. Sopheon's software applications integrate technology and human-based decision support to reduce product development spending waste and accelerate time to market. The Sopheon 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

During 2002 we focused on operational development of the business and in particular on Accolade, Sopheon's flagship software solution for product development. The year saw the full integration of technology acquired in 2001 as part of the merger with Orbital Software, coupled with the release of Accolade version 4.0 and a substantial increase in Accolade sales activity compared to the year before. Sopheon is now recognised as a leading supplier of solutions that improve the financial return on innovation and product development investments within research and development (R&D), a market that is receiving increasing attention and focus from the business community. Notwithstanding these positive developments, during the year we realised that our operating plans for 2002 were more ambitious than the economic environment permitted. Consequently in the second half of the year we took further cost reduction measures, resulting in an EBITDA loss in line with broker expectations in spite of considerable pressure on revenues.

RESULTS AND FINANCE

Sopheon's consolidated revenues were £12.4m (2001: £14.0m) and consolidated EBITDA was a loss of £8.9m (2001: £11.8m). Approximately 73% of the total revenues came from the Company's Information Management (IM) divisions, representing research analyst services, portal subscriptions and information provision. The Business Process Solutions (BPS) division, representing software applications and related consultancy services, contributed 27% of revenue during the year. As noted above, the mix of business within BPS delivered a substantially increased proportion of revenues relating to Sopheon's own solutions as opposed to bespoke developments and third-party products. IM represented the bulk of the fall in consolidated revenue with a reduction of £1.3m. The BPS reduction of £0.3m is made up of an increase in revenues relating to Accolade and other proprietary products of £1.1m offset by a reduction in sales of third-party products and bespoke project revenues of £1.4m.

On a consolidated basis costs were down by over twice the revenue reduction, resulting in a decrease in consolidated EBITDA loss to £8.9m. Of this loss, £5.3m was recorded in the first half of 2002, reflecting the sharp reductions in cost base referred to above. Following the impairment charge taken in 2001, goodwill charges totalled £5.9m (2001: £21.4m) for the year, leading to a loss before tax of £16.2m (2001: £34.6m) and a loss of 19.4p per ordinary share (2001: 76.2p).

At 31 December 2002, Sopheon had gross cash resources of £3.4m (2001: £13.3m) before overdrafts and lines of credit drawn totalling £0.9m (2001: £0.7m). Coming into 2003 the board took the view that a stronger cash position was required for a responsible continuation of our development strategy for the business. After consulting during March with Sopheon's brokers and key institutional investors, the board came to the conclusion that a restructuring of the business was the most pragmatic approach that could be taken to improve the balance sheet in the current market environment.

Accordingly, during April the group entered into a letter of intent with a potential purchaser to divest Sopheon's US-based IM business. The proposed transaction is progressing well, and subject to certain conditions and events including the completion of due diligence by the purchaser's financial partners, is expected to complete by mid July. As a backup in the event that the transaction protracts or is otherwise not completed, the board has accepted a letter of intent from an alternative purchaser that is also undertaking due diligence. Consistent with its strategy of imbedding external human-based decision support capabilities within its software solutions, Sopheon expects to continue to provide information management services following closure of either transaction, through an exclusive outsourcing arrangement with the purchaser.

Separately, the directors will be seeking the extension of the maturity date of the group's £2.6m of 6% convertible unsecured loan stock, by up to two years from June 2004. It is proposed that this would be coupled with modification of other terms of the loan stock, which might include a reduction in the loan stock conversion price. This in turn, depending on the level of any revised conversion price, might require shareholders to approve an increase in the directors' authority to issue and allot shares. Any changes to the terms of the stock would also need to be put to a meeting of its holders, which is expected to take place before the end of June 2003.

The directors believe that their restructuring objectives will be achieved, and accordingly the financial information set out in this preliminary announcement is prepared on the going concern basis. The board is also considering other complementary measures, and will keep shareholders informed of developments. Nevertheless, in the event that the IM disposal is not completed, the maturity of loan stock not extended, or the directors' future sales targets are not met, and in the absence of any other measures that might be available to the board, the going concern basis would cease to be appropriate. Your attention is drawn to the Note 1 Accounting Policies on page 26, which include an explanation of the basis of preparation of the financial statements and to the auditors' report on page 21.

2002 TRADING SUMMARY

General economic uncertainty remained through 2002. In our interim statement we noted continuing pressure on our IM division, which was particularly hard hit in Germany. Employment conditions there mean that the cost base is relatively rigid, and therefore, as a number of clients reduced their level of business with us following their own restructuring and M&A activity, our German business suffered higher financial losses than might be expected in a more flexible environment. As a consequence of this, the Board has been assessing Sopheon's German subsidiary with a view to restructuring its activities, also by the end of June in line with the planned disposal of the US-based IM business. The US operations of the IM division responded to the difficult climate with further reductions in staff, and towards the end of the year by reorganisation around client-focused teams.

In our BPS division, activity related to Accolade accelerated, with 30 transactions in 2002 compared to only 4 in 2001. Progress with Accolade at the end of 2002 can be summarised as follows:

- We ended 2002 with a total of 34 paying Accolade-related transactions achieved since launch, across 28 clients;

- The total of 34 transactions was made up of 10 initial licences, 6 additional licences either following on from an assessment or extending the user base at an existing client, 3 ancillary modules sold without the core Accolade system, and 15 assessments. Sopheon defines an assessment as when a client is paying for a trial installation or a consulting engagement which could lead to an Accolade order;

- 30 of these transactions were sold in 2002, compared to 4 in 2001

Transactions occurred in each of the geographies in which Sopheon operates – the US, the UK, Germany and the Netherlands – and also in Southeast Asia, where Sopheon has an active distribution relationship in Singapore. Accolade customers are highly referenceable. We are pleased with the level of user acceptance and benefit Accolade is bringing our clients. Also in BPS, the division continued to develop and expand its Dutch healthcare solutions business.

These developments mean that during 2002, 65% of the total BPS revenues were related to Sopheon's proprietary products and services as opposed to third party and bespoke solutions. This compares to 30% in 2001. Nevertheless, our integration teams continued to work on bespoke projects, at a reducing level, as we continued the transition to supporting our own products.

The board has been conscious of the need to balance cost reduction with maintaining business effectiveness and delivery of our strategy. During 2002 fixed costs were reduced by 35%, bringing the cumulative reduction since Sopheon's acquisition of Orbital Software in late 2001 to 55%. These reductions are reflected in headcount down to 184 at the end of 2002, compared to 264 in January 2002 and 349 in late 2001. In particular, following the release of Accolade 4.0, R&D resources were scaled back and concentrated; marketing expenditure has been focused on short-term lead generation and on third-party validation of our products; property and IT infrastructure were rationalised.

UPDATE OF FIRST QUARTER OF 2003

Beset with continued economic turmoil and the uncertainties of war, the market in the first quarter of 2003 remained sluggish. Despite these conditions, Sopheon continued to grow its proprietary software business, focused around Accolade. Specific aspects of Sopheon's business performance during the first quarter included the following:

- Ten Accolade transactions were completed in the first quarter; 5 sales of assessments, 3 initial license sales and 2 extensions of ancillary module licenses.

- We continued our record of 100% satisfaction among installed Accolade clients. A number of clients expressed interest in increasing the value they derive from Accolade by expanding its application beyond product development to areas such as Six Sigma quality improvement initiatives, mergers and acquisitions and the management of information technology (IT) projects

- An organisation involved in clinical trials for hospitals and their partners installed Accolade as a way of automating and strengthening clinical trials management procedures. The system also includes users from the hospitals and their pharmaceutical and biotech corporate partners.

- A major University Hospital in the Netherlands committed to a five-year agreement valued at €0.9m, for use of a Sopheon software solution that automatically updates staff members on scientific and medical advances in their areas of specialization.

- The US IM business finished the quarter with an 84% renewal rate among contracts that came due during the quarter, and continued to concentrate on its strategy of optimising client utilization of contracts. The impact of the latter was evident in the fact that contract utilization rates rose during the period to the 94% level, an encouraging indicator of the probable value of future renewals.

Another important first-quarter development related to Sopheon's software business was Gartner Group's publication of its first "Magic Quadrant" for the product lifecycle management (PLM) market. The Quadrant is a proprietary analytical tool used by the IT research and advisory firm to assess and profile the leading suppliers in a given market space. Sopheon's Accolade was one of only three process automation/portfolio management solutions selected for inclusion, reflecting Gartner's judgement that our offering has proven its viability and is among those having the greatest impact on the market.

MARKET

During 2002, Sopheon was referenced or profiled in 37 reports from firms such as Gartner, Giga, META Group, IDC and AMR Research that advise end-users on which products they should use and with which suppliers they should do business.

Research has identified a number of challenges facing the product development (PD) process in major corporations. Notably, 47% of PD resources are spent on products that are financially unsuccessful, and 41% of launched products fail in the market. Accolade addresses these and other issues by creating an automated process environment in which to implement standardised innovation and product development methodologies. The most widely used process is Stage-Gate™, implemented by over 60% of technology-driven companies in North America. Typically, use of the methodology is paper-based, leading to lack of adherence, administrative burden, and weak decision support. Accolade solves these problems through automation and control of the process.

PRODUCT DEVELOPMENT AND IPR

Accolade was first launched in the second quarter of 2001. In September 2002, Sopheon released version 4.0, which is recognised by our clients as being feature rich, stable and high quality software. A key achievement in Version 4.0 is the creation of the Knowledge Network module, representing the full integration of the former Orbital Software's Organik technology with Accolade, providing on-demand support for critical process, business and technical decisions. The Knowledge Network module links users to internal and external experts, repositories of information on current and past projects, thousands of sources of published information, and to Sopheon's IM services, which in the future are expected to be provided by Sopheon through an exclusive outsoucing arrangement with the acquirer of this business. The version 4.0 release also included an idea management and screening module to help generate, manage and evaluate product ideas, and a built-in, customisable library of templates for key process deliverables such as product definition records, project reports, operational plans, supply plans and detailed business and financial analyses.

Sopheon holds patents in three key areas, relating to profiling technology, presentation of large domain search results by category or type, and application of information technology to language-intensive processes.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT TEAM

Sopheon's group management and governance structure is divided between a Sopheon plc Board of Directors with more than half its directors being non-executive, and an executive management board responsible for operations.

During 2002 Dan Metzger, a former executive of Lawson Software joined the board following the retirement of Joe Shuster, the founder of Teltech Resource Network Corporation, one of Sopheon's predecessor companies. Dan brings many years of enterprise software business experience to the group. The Sopheon plc Board otherwise remains unchanged with four non-executive directors and three executive directors, being the Executive Chairman, the CEO and the CFO.

The executive management board is a team of seven, which includes the three executive directors. Andy Michuda, our CEO, continues to have day-to-day responsibility for driving the Accolade growth strategy. During the year, Dave Magnani assumed responsibility as VP of the US-based IM business. Chris Hawver and Paul Heller are chief marketing officer and chief technology officer respectively, and Huub Rutten remains VP of research and leader of our Dutch healthcare unit.

OUTLOOK

Although we expect that tough economic conditions will persist in 2003 in all geographies, we entered 2003 with a substantially reduced cost base and rationalised infrastructure, a flagship software product that is generating a high level of interest and sales activity compared to 12 months earlier, an expanding installed client base, and increased validation of the market. Accolade has demonstrated, consistently, that it is a valuable solution in which clients are prepared to invest. Sopheon is very focused on converting this asset into a viable high-growth business. The planned divestiture of our US-IM business will reduce complexity and sharpen that focus. Since the beginning of 2003, the pipeline for our software products has continued to develop. This progress supports the board's belief that there is a positive outlook for Accolade in the current year, and that we are well-positioned to continue to advance toward our goal of becoming a leading international supplier of software and services that improve the financial return on innovation and product development investments.

In addition to driving the commercial development of Accolade, management is focusing its attention on the successful conclusion of the planned divestiture of Sopheon's US-based IM business. As we go forward, the board will continue to assess the financial resources available to implement our strategy against the operational progress of the business.

Barry Mence
Executive Chairman

Andy Michuda
Chief Executive Officer

12 June 2003

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 utility of Sopheon technology, information management services and expertise is 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.

"Companies cannot afford to ignore the reality that product development is one of today's most critical business processes. The capacity of Sopheon's Accolade to provide advanced decision support across the product ideation and development processes can be a key contributor to driving revenue from new products."

Ken Amann, Director of Research, CIMdata

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, in July of 2001 Sopheon acquired the Technology and Information Services division ("AIT") of Aventis Research & Technologies, Frankfurt, Germany.

In November of 2001 Sopheon acquired UK-based Orbital Software and its Organik technology. Organik captures the questions and answers of knowledge workers within an organization and locates internal and external experts that can address the user's information needs. The acquisition of Orbital expanded Sopheon's ability to enable access to both documented information and human expertise.

Organized for Fast, Effective Response to Market Needs

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 order to optimize the focus and efficiency of its solutions development, marketing and sales efforts, Sopheon has divided its organization into two global operating divisions: Business Process Solutions (BPS) and Information Management (IM). The BPS division includes a thriving Dutch healthcare solutions business.

THE PRODUCT LIFECYCLE MANAGEMENT (PLM) MARKET WILL EXCEED $4.8 BILLION GLOBALLY IN 2002 AND INCREASE AT A COMPOUND ANNUAL GROWTH RATE OF 25% THROUGH 2006. – CIMdata

Business Process Solutions – Helping Organizations Move from Strategy to Results

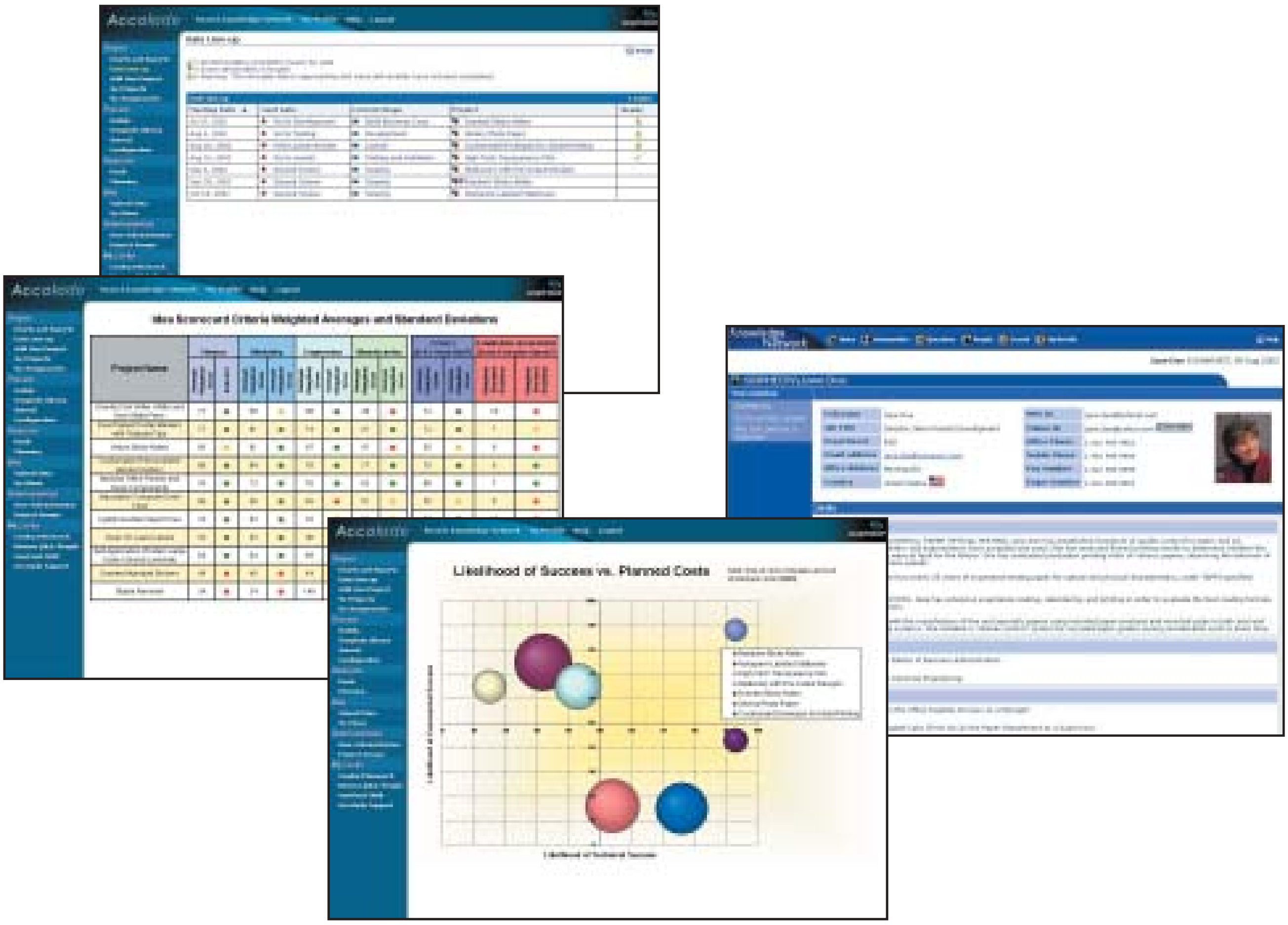
Sopheon's solutions blend the richness of human expertise and specialized content with the efficiencies of technology to support strategic, knowledge-intensive business processes such as R&D and product development. Sopheon's solutions model and automate the steps of these processes, integrating market,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

"Accolade will get the most from the stage gate process we have recently adopted and, in particular, will give all involved with that process a clearer and more complete view of the project portfolio details critical to setting priorities, making project funding decisions and maximizing return on investment. Accolade is the ideal tool for capturing, sharing and leveraging the learning that occurs throughout the product development process."

John Miller, Chief Technology Office, Pall Corp.

Sopheon Accolade® To achieve and sustain success in today's economic order, many companies are striving to generate more revenue from new products.

Sopheon's Accolade is a software system that automates the product development process and strengthens it with strategic decision-making support. Sopheon developed Accolade 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 an idea management system, 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.

"Our team had no shortage of ideas for product, service and manufacturing process innovations but sought a more efficient and disciplined way of evaluating, processing and realizing the potential of those ideas. Accolade creates the structure that makes our team and its processes more effective in achieving our strategic objectives."

John Mixon, General Director, Development, National Gypsum

Healthcare Solutions. 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.

The **QualiFlow 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 help manufacturers in the hi tech and life sciences industry sectors more effectively produce, control and distribute documents containing standards and product information that are critical to meeting requirements for compliance management and conformity assessment.

"The Accolade system joins our seven mills with three central offices across five countries, enabling us to streamline the coordination of our product development. It also boosts our ability to manage the assessment of ideas using Web scorecards to standardize the screening process, reducing the amount of time it takes to collect objective feedback from our evaluation team, prioritizing those ideas with the greatest commercial potential and moving them into our project pipeline."

Math Jennekens, Director of Research and Development, SAPPI Fine Paper Europe

Information Management – A Trusted Source of Actionable Information

Sopheon's Information Management services are designed to improve the effectiveness of information delivery, analysis, and use across organizations. Client's turn to Sopheon for quick answers to everyday questions as well as complex market, competitive and technical analyses. 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, a propietary network of technical and industry authorities, and 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 information management services can be accessed through the company's award-winning, web-based research portal, Teltech.com. Research support can also take on the form of custom portals that integrate access to Web content, published literature and proprietary information collections backed by the services of Sopheon's analysts and experts.

CEOs RANK PRODUCT DEVELOPMENT SECOND IN IMPORTANCE ONLY TO INNOVATION AS A SOURCE OF COMPETITIVE ADVANTAGE. – PricewaterhouseCoopers Study

"Sopheon provides us with the timely information and insight required to manage product development risk and accelerate the concept-to-commercialization cycle. Its specialized team of analysts and experts offers a range and quality of decision support no other solutions provider can equal."

David Egberg, Vice President of R&D, Novartis

Association Strategy

During 2002, Sopheon accelerated efforts to build strategic relationships with industry associations. The goal of this initiative is to further leverage client acceptance in the company's key vertical markets by offering association members educational, online seminars, and by facilitating knowledge exchange within the membership through the implementation of the company's Organik technology on an associations website. Initial success with this program includes relationships with such associations as the Knowledge and Innovation Management Professionals Society (KMPro), the Institute of Electrical and Electronics Engineers (IEEE), and Technical Association for the Pulp and Paper Industry (TAPPI).

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
	Bernard P. F. Al	Non-executive Director
	Andrew B. Davis	Non-executive Director
	Daniel Metzger	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 No. 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	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL	
Euronext Paying Agent	Kempen & Co Beethovenstraat 300 1077 WZ Amsterdam The Netherlands	
Registrars	Capita IRG plc The Registry 34 Beckenham Road Beckenham, Kent BR3 4TV	
Financial PR Consultants	Hansard Communications Limited 14 Kinnerton Place South London SW1X 8EH	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. 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 £*	*Total 2002 £*	*Total 2001 £*	*Contributions to Pension 2002 £*	*Contributions to Pension 2001 £*
Executive directors						
B. K. Mence	108,403	3,157	111,560	125,027	7,475	3,600
A. L. Michuda	117,333	6,128	123,461	139,703	2,267	2,349
A. Karimjee	77,500	1,091	78,591	86,600	3,504	3,504
Non-executive directors						
S. A. Silcock	18,000	-	18,000	18,000	-	-
B.P.F. Al	18,000	-	18,000	18,000	-	-
A.M. Davis	18,000	-	18,000	1,500	-	-
D. Metzger (1)	4,500	-	4,500	-	-	-
J. M. Shuster (2)	12,000	3,117	15,117	20,299	320	332
	373,736	13,493	387,229	409,129	13,566	9,785

(1) Appointed on 30 September 2002
(2) Resigned 30 September 2002
(3) 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 2002 before interest, tax, depreciation and amortisation (LBITDA) was £8,910,000 (2001 - £11,757,000) on a turnover of £12,353,000 (2001 - £13,963,000). The result for the year, after allowing for the amortisation of goodwill, and after taxation, is a loss of £16,053,000 (2001 - £34,631,000). 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 improve the return on investment of product development, within the rapidly emerging product lifecycle management (PLM) market.

Review of the Business
As is well known the general economic uncertainty has remained volatile. Sopheon's consolidated revenues for the year are £12.4m (2001: £14.0m) and consolidated EBITDA was a loss of £8.9m (2001: £11.8m). Approximately 73% of the total revenues came from the IM (Information Management) division representing research analyst services, portal subscriptions and information provision. The BPS (Business Process Solutions) division, representing software applications and related consultancy services, contributed 27% of revenue during the year. The mix of business within BPS delivered a substantially increased proportion of revenues relating to Sopheon's own solutions as opposed to bespoke developments and third party products. IM represented the bulk of the fall in consolidated revenue with a reduction of £1.3m with our German operation experiencing a particularly difficult period. The BPS reduction of £0.3m is made up of an increase in own-product revenues of £1.1m offset by a reduction in third party and bespoke revenues of £1.4m. On a consolidated basis costs were down by over twice the revenue reduction, reflecting sharp reductions in cost base implemented by the board mid-year, and resulting in a fall in consolidated EBITDA loss to £8.9m. Of this loss, £5.3m was recorded in the first half of 2002 compared with £3.6m in the second half.

Following the accelerated write down of goodwill in 2001, we have continued to amortise remaining goodwill in over 3 years, in line with our historic policy. This has resulted in a total goodwill charge of £5.9m (2001: £21.4m) for the year, leading to a loss before tax of £16.2m (2001: £34.6m) and a loss of 19.4p per ordinary share (2001: 76.2p).

At 31 December 2002, Sopheon had gross cash resources of £3.3m (2001: £13.3m) before overdrafts and lines of credit drawn totalling £0.9m (2001: £0.7m).

During April 2003 the group entered into a letter of intent with a potential purchaser to divest Sopheon's US based IM business. Subject to certain conditions and events including the completion of due diligence by the purchaser's financial partners, the proposed transaction is expected to complete by mid July 2003. If concluded the sale would give rise to a profit on disposal after charging goodwill, with consideration consisting mainly of cash and net liabilities to be assumed by the purchaser. As a potential backup in the event that the transaction protracts or is otherwise not completed, the board has accepted a letter of intent from an alternative purchaser that is also undertaking due diligence. Consistent with its strategy of imbedding external human-based decision support capabilities within its software solutions, Sopheon expects to continue to provide information management services following closure of either transaction, through an exclusive outsourcing arrangement with the purchaser.

Separately, the directors will be seeking the extension of the maturity date of the group's £2.6m of 6% convertible unsecured loan stock, by up to two years from June 2004. It is proposed that this would be coupled with modification of other terms of the loan stock, which might include a reduction of the loan stock conversion price. This in turn, depending on the level of any revised loan stock conversion price, might require shareholders to approve an increase in the directors' authority to issue and allot shares.

The directors believe that their restructuring objectives will be achieved, and accordingly the accounts have been prepared on the going concern basis. The board is also considering other complementary measures. Nevertheless, in the event that the IM disposal is not completed, the maturity of loan stock not extended, or the directors' future sales targets are not met, and in the absence of any other measures that might be available to the board, the going concern basis would cease to be appropriate. Your attention is drawn to Note 1 of the accounts, which includes an explanation of the basis of preparation of the financial statements.

Research and Development

As planned, Accolade 4.0 was released during the summer of 2002, incorporating knowledge management features which facilitate 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. Accolade 4.0 also incorporated better integration with Sopheon's information management services and added an idea management module.

Following this release, Sopheon's development team was consolidated into the Denver location which continues to apply the high quality standards, designed to deliver world-class, enterprise strength software, that have resulted in the high customer satisfaction ratings Accolade enjoys.

Future Developments

Although the board expects that tough economic conditions will persist in 2003 in all geographies, Sopheon entered 2003 with a substantially reduced cost base and rationalised infrastructure, a flagship software product that is generating a high level of interest and sales activity compared to 12 months earlier, an expanding installed client base, and increased validation of the market. Accolade has demonstrated, consistently, that it is a valuable solution in which clients are prepared to invest. Sopheon is very focused on converting this asset into a viable high-growth business. The planned divestiture of the US IM business will reduce complexity and sharpen that focus. Since the beginning of 2003, the pipeline for the group's software products has continued to develop. This progress supports the board's belief that there is a positive outlook for Accolade in the current year, and that Sopheon is well-positioned to continue to advance toward its goal of becoming a leading international supplier of software and services that improve the financial return on innovation and product development investments.

In addition to driving the commercial development of Accolade, management is focusing its attention on the successful conclusion of the planned divestiture of Sopheon's North American IM business. As we go forward the board will continue to assess the financial resources available to implement our strategy against the operational progress of the business.

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	*2002*	*2001*	*2002*	*2001*
B. K. Mence	122,500	22,500	10,997,277	8,696,457
A. Michuda	773,607	285,675	41,855	41,355
A. Karimjee	262,500	112,500	-	-
S. A. Silcock	-	-	181,383	181,383
S. A. Silcock*	-	-	98,077	98,077
B. P .F. Al	25,000	25,000	393,000	25,000
A. M. Davis	-	-	494,520	494,520
Daniel Metzger (appointed on 30 September 2002)	-	-	-	-

Of the 10,997,277 ordinary shares mentioned above B. K. Mence beneficially owns and is the registered holder of 4,846,657 ordinary shares. A further 2,300,820 ordinary shares are held by Inkberrow Limited, a company in which his family trust is the major shareholder. In addition 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. and is a minority Shareholder in Inkberrow Limited.

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. Further details of the Stock are given in Note 15.

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

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 2001*	*Granted during year*	*Exercised during year*	*At 31 December 2002*
B. K. Mence (1)	2 May 2001	77.5p	22,500	-	-	22,500
B. K. Mence (1)	30 April 2002	14.75p	-	100,000	-	100,000
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. L. Michuda (3)	30 April 2002	14.75p	-	487,932	-	487,932
A. Karimjee (1)	22 November 1999	150p	100,000	-	-	100,000
A. Karimjee (1)	2 May 2001	77.5p	12,500	-	-	12,500
A. Karimjee (4)	30 April 2002	14.75p	-	150,000	-	150,000
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.
(4) Exercisable as to 100,000 between the third and tenth anniversary of the date of grant and the balance exercisable immediately.

The mid-market price of Sopheon ordinary shares at 31 December 2002 was 13p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 30.5p to 4.5p.

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

As of 12 June, 2003 the Directors are aware of the following persons who are interested directly or indirectly in three percent or more of the company's issued ordinary shares:

Name	*No. of Ordinary Shares*	*% issued Ordinary Shares*
B. K. Mence (director)	10,997,277	13.3
Aventis Research & Technologies GmbH & Co KG	3,471,191	4.2

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 2002, the group had an average of 55 days' purchases outstanding in trade creditors.

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 2001 and 2002.

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
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 12 June 2003 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 2002, which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognized Gains and Losses and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

Fundamental uncertainty – going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning their preparation on a going concern basis. The financial statements have been prepared on a going concern basis, the validity of which depends on the completion of the proposed disposal of the US-based Information Management business, the extension of the maturity date of the convertible loan stock and the achievement of significantly increased sales targets which represent substantial growth over 2002, which are subject to significant uncertainties. In view of the significance of these uncertainties, we consider that they should be drawn to your attention but our opinion is not qualified in this respect.

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 2002 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

12 June 2003

Group Profit And Loss Account For The Year Ended 31 December 2002

	Notes	2002 £'000	2001 £'000	2000 £'000
TURNOVER	2	12,353	13,963	7,763
Cost of sales		(9,002)	(10,186)	(5,402)
GROSS PROFIT		3,351	3,777	2,361
Sales and marketing expenses		(5,437)	(7,281)	(3,450)
Research and development expenditures		(2,331)	(3,010)	(3,321)
Amortisation and impairment charges in respect of goodwill		(5,922)	(21,431)	(5,561)
Other administrative expenses		(5,727)	(6,792)	(2,759)
Total administrative expenses		(13,980)	(31,233)	(11,641)
OPERATING LOSS	3	(16,066)	(34,737)	(12,730)
Share of operating loss of associated undertaking		(46)	(63)	(76)
Interest receivable		260	373	950
Interest payable and similar charges	5	(327)	(204)	(89)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(16,179)	(34,631)	(11,945)
Tax on ordinary activities	6	126	-	-
RETAINED LOSS FOR THE YEAR		(16,053)	(34,631)	(11,945)
Loss per share - basic and diluted (pence)	8	(19.4p)	(76.2p)	(33.4p)
LOSS ON AN EBITDA BASIS		(8,910)	(11,757)	(6,655)

EBITDA is defined in Note 1 to the Financial Statements.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £'000	2001 £'000	2000 £'000
Loss on ordinary activities after taxation	(16,053)	(34,631)	(11,945)
Exchange difference on retranslation of net assets of subsidiary undertakings	75	31	100
Total recognised losses relating to the year	(15,978)	(34,600)	(11,845)

Group Balance Sheet At 31 December 2002

	Notes	2002 £'000	2001 £'000
FIXED ASSETS			
Intangible assets			
Goodwill	9	5,091	11,124
Less: Negative goodwill	9	(166)	(277)
		4,925	10,847
Tangible Assets	10	900	2,159
Investments	11	-	46
		5,825	13,052
CURRENT ASSETS			
Debtors	12	2,660	3,592
Cash at bank and in hand	13	3,355	13,344
		6,015	16,936
CREDITORS: amounts falling due within one year	14	(6,332)	(8,584)
NET CURRENT (LIABILITIES)/ASSETS		(317)	8,352
TOTAL ASSETS LESS CURRENT LIABILITIES		5,508	21,404
CREDITORS: amounts falling due after more than one year	15	-	(25)
6% Convertible Unsecured Loan Stock 2004	15	(2,569)	(2,553)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(513)	(461)
		2,426	18,365
CAPITAL AND RESERVES			
Called up share capital	18	4,147	4,116
Shares to be issued	19	465	465
Share premium account	19	45,380	43,372
Merger reserve	19	18,384	18,384
Other reserves	19	4,445	5,455
Profit and loss account	19	(70,395)	(55,427)
Shareholders' funds (all equity interests)		2,426	18,365

Approved by the Board on 12 June 2003

Barry K. Mence
Director

Arif Karimjee
Director

Company Balance Sheet At 31 December 2002

	Notes	2002 £'000	2001 £'000
FIXED ASSETS			
Investments	11	6,119	23,477
CURRENT ASSETS			
Debtors	12	17	14
Cash at bank and in hand		1,910	4,839
		1,927	4,853
CREDITORS: amounts falling due within one year	14	(663)	(1,198)
NET CURRENT ASSETS		1,264	3,655
TOTAL ASSETS LESS CURRENT LIABILITIES		7,383	27,132
CREDITORS: amounts falling due after more than one year	15	-	(4,295)
6% Convertible Unsecured Loan Stock 2004	15	(2,569)	(2,553)
		4,814	20,284
CAPITAL AND RESERVES			
Called up share capital	18	4,147	4,116
Shares to be issued	19	465	465
Share premium account	19	45,380	45,372
Merger reserve	19	10,619	10,619
Other reserves	19	4,445	5,455
Profit and loss account	19	(60,242)	(45,743)
Shareholders' funds (all equity interests)		4,814	20,284

Approved by the Board on 12 June 2003

Barry K. Mence
Director

Arif Karimjee
Director

Group Statements Of Cash Flows For The Year Ended 31 December 2002

	Notes	2002 £'000	2001 £'000	2000 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	3	(10,268)	(11,224)	(8,793)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		260	373	950
Interest paid		(327)	(204)	(88)
Interest element of finance lease rental payments		-	-	(1)
		(67)	169	861
TAXATION				
Research and development tax credit		126	-	-
CAPITAL EXPENDITURE & FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets		(104)	(201)	(954)
Receipts from sales of tangible fixed assets		18	-	-
		(86)	(201)	(954)
ACQUISITIONS AND DISPOSALS				
Purchase of subsidiary undertakings		-	(668)	(11,962)
Net cash acquired with subsidiary undertakings		-	13,705	(155)
Purchase of investment in associated undertaking		-	-	(164)
		-	13,037	(12,281)
MANAGEMENT OF LIQUID RESOURCES				
Decrease/(increase) in short term deposits		8,186	(3,512)	(267)
NET CASH OUTFLOW BEFORE FINANCING		(2,109)	(1,731)	(21,434)
FINANCING				
Issues of ordinary share capital		39	1,567	20,222
Issue of convertible loan stock		-	2,553	-
Repayment of long-term loans		(51)	(36)	(30)
Repayment of capital element of finance lease		-	(1)	(8)
		(12)	4,083	20,184
(DECREASE)/INCREASE IN CASH	13	(2,121)	2,352	(1,250)

1. ACCOUNTING POLICIES

Accounting convention and basis of preparation
The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards, and on the going concern basis. At the year end the group reported consolidated net current liabilities of £0.3m and gross cash resources of £3.4m. Whilst the cost base has been substantially reduced, the group has continued to incur losses. Since the end of the year the directors have taken steps to restructure the business, initially through the proposed divestiture of its US-based Information Management business. The proposed transaction is progressing well and, subject to certain conditions and events including the completion of due diligence by the purchaser's financial partners, is expected to complete by mid July 2003. If concluded the sale would give rise to a profit on disposal after charging goodwill, with consideration consisting mainly of cash and net liabilities to be assumed by the purchaser. As a potential backup in the event that the transaction protracts or is otherwise not completed, the board has accepted a letter of intent from an alternative purchaser that is undertaking due diligence.

The directors are also seeking the extension of the maturity date of the group's £2.6m of convertible unsecured loan stock, by up to two years from June 2004. It is proposed that this would be coupled with modification of other terms of the loan stock, which might include a reduction of the loan stock conversion price. This in turn, depending on the level of any revised loan stock conversion price, might require shareholder approval for an increase in the directors' authority to issue and allot shares. Any changes to the terms of the stock would also need to be put to a meeting of its holders, which is expected to take place before the end of June 2003.

The directors believe that these steps will provide the group with adequate funding to support its activities through to the point at which they forecast that trading becomes cash generative. Nevertheless, the ability of the group to continue as a going concern depends upon the completion of the currently contemplated disposal, thereafter on the rescheduling of the convertible loan stock (including the receipt of any necessary shareholder approvals) and on meeting the sales targets on which the trading forecasts for the group are based, which include objectives for the group's Accolade product that represent substantial growth over 2002. The directors have a reasonable expectation that these outcomes will occur, and that together they will provide adequate resources to enable the group to continue as a going concern. However, these outcomes are not certain. In the event that the disposal is not completed, the maturity of loan stock not extended, or sales targets are not met, and in the absence of any other appropriate measures that might be available to the board, the cash generated from sales would continue to be insufficient to cover the cash outflows of the group, and the going concern basis would cease to be appropriate.

The financial statements do not reflect any adjustments which would be required if the going concern assumption was not appropriate. Given the uncertainty described above it is not currently possible to determine the extent and quantification of such adjustments but these would include the reclassification of creditors due in more than one year to less than one year, the write down of the carrying value of goodwill in the balance sheet to the best estimate of net realisable value on disposal, and provision for additional liabilities.

Basis of consolidation
The consolidated financial statements 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.

Turnover
Turnover comprises amounts derived from the sale of goods and services and is stated net of Value Added Tax.

Sales of software products are recognised on delivery, and when no significant vendor obligations remain. Revenues from implementation and post contract support services in respect of software sales are recognised as the services are performed. Periodic subscription revenue is recognised rateably over the subscription period. Transaction-based revenue is billed and recognised as the related services are rendered. Revenues relating to significant maintenance and support agreements are deferred and recognised over the period of the agreements.

Revenues and associated costs under long term contracts are recognised on a percentage basis as the work is completed and any relevant milestones are met, using latest estimates to determine the expected duration and cost of the project.

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 is three years in all cases. 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.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exception.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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.

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 salaries of employees. Its pension liabilities were measured when the subsidiary was acquired in 2001 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. The provision will be used to offset the future payments to those employees.

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

	2002 *£'000*	*2001* *£'000*	*2000* *£'000*
Software and consultancy	3,307	3,654	4,912
Information and research services	9,046	10,309	2,851
	12,353	13,963	7,763

Analysis of operating loss by area of activity

	2002 £'000	2001 £'000	2000 £'000
Software and consultancy	1,135	719	1,406
Information and research services	2,216	3,058	955
Gross margin	3,351	3,777	2,361
Sales and marketing expenses	(5,437)	(7,281)	(3,450)
Administrative expenses (including goodwill amortisation and impairment charge)	(13,980)	(31,233)	(11,641)
Operating loss	(16,066)	(34,737)	(12,730)

Analysis of turnover by geographical destination

	2002 £'000	2001 £'000	2000 £'000
United Kingdom	829	2,026	2,965
Rest of Europe	4,012	3,239	1,339
North America	7,391	8,471	3,459
Rest of World	121	227	-
	12,353	13,963	7,763

Analysis of turnover and operating loss by geographical origin

	Operating loss			Turnover		
	2002 £'000	2001 £'000	2000 £'000	2002 £'000	2001 £'000	2000 £'000
United Kingdom	4,686	9,016	4,934	945	2,253	3,942
Rest of Europe	1,146	1,651	1,735	4,032	3,239	500
United States of America	10,234	24,070	6,061	7,376	8,471	3,321
	16,066	34,737	12,730	12,353	13,963	7,763

Analysis of net assets by geographical origin

	2002 £'000	2001 £'000	2000 £'000
United Kingdom	162	602	5,182
Rest of Europe	92	1,033	476
United States of America	2,893	8,501	25,320
Unallocated cash and debt at group level	(721)	8,229	7,318
	2,426	18,365	38,296

3. OPERATING LOSS

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

	2002 £'000	2001 £'000	2000 £'000
Auditors' remuneration - audit services	90	90	67
Auditors' remuneration - non audit services	51	26	19
Research and development expenditure written off	2,331	3,010	3,321
Grants and subsidies	(69)	(19)	(78)
Foreign exchange (gains)/losses	15	(20)	(645)
Amortisation of goodwill	5,922	12,288	5,561
Impairment charge on goodwill	-	9,143	-
Depreciation of owned assets	1,280	1,175	405
Depreciation of assets held under finance leases	-	-	4
Operating lease rentals - land and buildings	1,015	916	411
Operating lease rentals - equipment and vehicles	135	191	173

During 2002 £Nil (2001 £95,000 and 2000 £114,000) 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

	2002 £'000	2001 £'000	2000 £'000
Operating loss	(16,066)	(34,737)	(12,730)
Depreciation	1,280	1,175	409
Amortisation of goodwill	5,922	12,288	5,561
Impairment charge in respect of goodwill	-	9,143	
Decrease/(increase) in debtors	948	1,669	(453)
Decrease in creditors and provisions	(2,352)	(762)	(1,580)
Net cash outflow from operating activities	(10,268)	(11,224)	(8,793)

4. STAFF COSTS

	2002 £'000	2001 £'000	2000 £'000
Wages and salaries	10,580	12,506	6,834
Social security costs	960	1,082	579
Other pension costs	231	299	173
	11,771	13,887	7,586

The fees and emoluments of all directors were as follows:

	2002 £'000	2001 £'000	2000 £'000
Fees and emoluments	388	409	490
Pension contributions	16	10	19
	404	419	509

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:

	2002 £'000	2001 £'000	2000 £'000
Salaries and fees	118	136	107
Benefits	6	4	3
Pension contributions to defined contribution scheme	2	2	4
Total	126	142	114

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

	2002 Number	2001 Number	2000 Number
Development and operations	151	164	79
Sales and management	81	94	71
	232	258	150

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000	2000 £'000
Bank loans and overdrafts	155	115	49
Convertible loan stock	172	89	39
Finance charges on finance leases	-	-	1
	327	204	89

6. TAXATION

(a) Tax on loss on ordinary activities
The tax credit is made up as follows:

	2002 £'000	2001 £'000	2000 £'000
Research and development tax credits in respect of prior years	126	-	-

(b) Factors affecting current tax credit

The differences between the group's expected tax credit, using the group's standard corporation tax rate of 38% (2001: 39% and 2000: 39%), comprising the weighted average rates of tax payable across the group, and the group's current tax credit in each year are as follows:

	2002 £'000	2001 £'000	2000 £'000
Expected tax credit on loss on ordinary activities before tax	6,148	13,506	4,659
Amortisation and impairment charges in respect of goodwill	(2,250)	(8,358)	(2,169)
(Shortfall)/excess of tax depreciation compared to book depreciation	(102)	(80)	17
Losses in year not relievable against current tax	(3,796)	(5,068)	(2,507)
Research & development tax credits in respect of prior year	126	-	-
Actual current tax credit (see Note 6(a))	126	-	-

(c) Deferred taxation

The group has an unrecognised deferred tax asset arising from its unrelieved trading losses, which has not been recognised owing to uncertainty as to the level and timing of taxable profits in the future.

The unrecognised deferred tax asset is made up as follows:

	2002 £'000	2001 £'000	2000 £'000
Shortfall/(excess) of tax depreciation compared to book depreciation	104	2	(78)
Unrelieved trading losses	20,888	17,923	9,123
Unrecognised deferred tax asset	20,992	17,925	9,045

At 31 December 2002, tax losses estimated at £54,342,000 were available to carry forward by the Sopheon plc group, arising from historic losses incurred. These losses represent a potential deferred tax asset of £20,888,000. £14,712,000 of the tax losses, and £6,455,000 of the potential deferred tax asset, relate to Sopheon Corporation (Minnesota) and to Orbital Software Inc. The future utilisation of these losses may be restricted under section 382 of the US Internal Revenue Code, whereby the ability to utilise net operating losses arising prior to a change of ownership is limited to a percentage of the entity value of the corporation at the date of change of ownership.

Under Financial Reporting Standard 19, the unrecognised deferred tax asset in respect of trading losses can only be recognised if future taxable profits can be foreseen with a greater degree of certainty.

7. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent company for the year ended 31 December 2002 was £15,509,000 (2001- loss £54,411,000 and 2000 - profit £908,000). The loss in 2002 included a provision of £15,245,000 (2001- £54,670,000 and 2000 - Nil) against the company's investment in and loans to subsidiary companies. 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 £16,169,000 (2001 - £34,631,000 and 2000 £11,945,000), and on 82,669,430 (2001 - 45,471,220 and 2000 - 35,732,477) 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 2002 and at 31 December 2002	38,260	(332)
Amortisation		
At 1 January 2002	27,136	(55)
Provided during the year	6,033	(111)
At 31 December 2002	33,169	(166)
Net book value		
At 31 December 2002	5,091	(166)
At 31 December 2001	11,124	(277)

10. TANGIBLE FIXED ASSETS

Group only

	Computer Equipment £'000	*Furniture & fittings £'000*	*Internet Portals £'000*	*Total £'000*
Cost				
At 1 January 2002	2,710	592	842	4,144
Additions	91	13	-	104
Disposals	(89)	(129)	-	(218)
Exchange adjustments	(68)	(14)	(81)	(163)
At 31 December 2002	2,644	462	761	3,867
Depreciation				
At 1 January 2002	1,342	328	315	1,985
Provided during the year	836	159	285	1,280
Disposals	(80)	(115)	-	(195)
Exchange adjustments	(47)	(6)	(50)	(103)
At 31 December 2002	2,051	366	550	2,967
Net book value				
At 31 December 2002	593	96	211	900
At 31 December 2001	1,368	264	527	2,159

11. INVESTMENTS

Group

Investment in associated undertaking	*Share of net tangible assets £'000*
At 1 January 2002	46
Share of retained loss	(46)
At 31 December 2002	-

The investment in associated undertaking is a 25% interest in Pro-GRAM BV, the remaining shares being held by three Dutch teaching hospitals, which was set up to promote Sopheon's software solutions and the hospital's content to the medical and healthcare market. However, the activity channelled through Pro-GRAM BV was at a low level during the year.

Company

Investment in subsidiary undertakings

	£'000
Cost	
At 1 January 2002 and 31 December 2002	53,545
Amounts provided:	
At 1 January 2002	30,068
Amounts provided in year	6,399
At 31 December 2002	36,467
Net book value of equity investments at 31 December 2002	17,078
Amounts due to subsidiary undertakings	(10,959)
	6,119
Net book value at 31 December 2001 – cost less amounts provided	23,477

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

Amounts due to subsidiary undertakings have been reclassified during the year and are shown as an offset against related investment in subsidiary undertakings.

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	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 Netherlands	Ordinary Shares	100%	Software sales and services The
Lessenger BV Netherlands	Ordinary Shares	100%	Software sales and services The
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%	Dormant
Orbital Software Europe Ltd† United Kingdom	Ordinary Shares	100%	Dormant
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 United Kingdom	Ordinary Shares	100%	Dormant
Applied Network Technology Ltd* United Kingdom	Ordinary Shares	100%	Employee Share Ownership Trust

The businesses and operating assets of Sopheon Edinburgh Limited and Orbital Software Europe Limited were transferred to Sopheon UK Limited on 31 December 2002.

12. DEBTORS

Group

	2002 £'000	2001 £'000
Trade debtors	1,683	2,489
Other debtors	202	121
Prepayments and accrued income	775	982
	2,660	3,592

Company

	2002 £'000	2001 £'000
Other debtors	7	-
Prepayments	10	14
	17	14

A full provision has been made against amounts totalling £33,448,000 (2001: £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.

	2002 £'000	2001 £'000	2000 £'000
(Decrease)/increase in cash	(1,803)	1,907	(93)
(Increase)/decrease in overdrafts and lines of credit	(318)	445	(1,157)
Net (decrease)/ increase in cash and cash equivalents	(2,121)	2,352	(1,250)
Issue of convertible loan stock	-	(2,553)	-
Repayment of term loans	51	36	39
Repayments of capital elements of finance leases	-	1	8
Cash (outflow)/ inflow from change in liquid resources	(8,186)	3,512	267
Change in net debt resulting from cash flows	(10,256)	3,348	(936)
Loans and finance leases acquired with subsidiary	-	(63)	-
Conversion of convertible loan stock	-	-	1,571
Exchange difference	80	(27)	30
Other	(16)	-	-
Movement in net (debt)/ funds	(10,192)	3,258	665
Net funds at 1 January	10,003	6,745	6,080
Net (debt)/ funds at 31 December	(189)	10,003	6,745

(b) Analysis of changes in net funds

	Cash at Bank	*Short Term Deposits/ Liquid Resources*	*Overdrafts and Lines of Credit*	*Convertible Loan Stock*	*Term Loans/ Finance Leases*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
At 1 January 2001	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
Cashflow	(1,803)	(8,186)	(318)	-	51	(10,256)
Exchange difference	-	-	80	-	-	80
Other				(16)		(16)
At 31 December 2002	758	2,597	(947)	(2,569)	(28)	(189)

14. CREDITORS: amounts falling due within one year

Group

	2002	*2001*
	£'000	*£'000*
Overdrafts and bank lines of credit	947	709
Current instalments due on bank loan	28	54
Trade creditors	1,280	2,781
Other taxes and social security costs	320	282
Accruals and deferred income	3,527	4,528
Other creditors	230	230
	6,332	8,584

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

Company

	2002	*2001*
	£'000	*£'000*
Trade creditors	103	496
Other creditors	97	-
Other taxes and social security costs	52	12
Accruals	296	690
Amount owing to subsidiary undertaking	115	-
	663	1,198

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

Group

	2002 £'000	2001 £'000
6% Convertible Unsecured Loan Stock 2004	2,569	2,553
Bank loan: amounts falling due		
From one to two years	-	25
	2,569	2,578

Company

	2002 £'000	2001 £'000
Amount owed to subsidiary undertaking	-	4,295
6% Convertible Unsecured Loan Stock 2004	2,569	2,553
	2,569	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. The instrument currently requires that such conversion rate shall not be reduced below 31.5p per share. The Board is proposing changes to the terms of the Stock, which are being put to its holders for approval and are described in Note 21. The exercise price of the warrants is 70p per Sopheon share. The Stock is redeemable on 20 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

	2002 £'000	2001 £'000
Pension provision		
At 1 January	461	-
Acquisitions during year	-	461
Additional amounts provided during year	21	-
Exchange difference	31	-
At 31 December	513	461

The pension provision represents the commitment of Sopheon GmbH to provide certain pensions based upon final pensionable 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%

Additional amounts have been provided during the year on a basis consistent with the above actuarial calculation.

17. OBLIGATIONS UNDER LEASES

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

At 31 December 2001 and 2002 the group had annual commitments under operating leases as set out below.

Group

	Land & Buildings 2002 £'000	*Other 2002 £'000*	*Land & Buildings 2001 £'000*	*Other 2001 £'000*
Operating leases which expire:				
within one year	417	26	450	43
in two to five years	328	99	684	105
Totals	745	125	1,134	148

18. SHARE CAPITAL

Authorised	*2002 Number*	*2002 £*	*2001 Number*	*2001 £*
Ordinary shares of 5p each	125,000,000	6,250,000	125,000,000	6,250,000

Allotted, called up and fully paid	*2002 Number*	*2002 £*	*2001 Number*	*2001 £*
Ordinary shares of 5p each	82,933,309	4,146,665	82,311,575	4,115,579

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.

On 16 January 2002 39,242 ordinary shares were issued for cash at 8.6p per share and 4,760 ordinary shares were issued at 6.193p per share pursuant to the exercise of share options.

On 15 March 2002 4,360 ordinary shares were issued for cash at 8.6p per share pursuant to the exercise of a share option.

On 3 May 2002 450,623 ordinary shares were issued for cash at 6.193p per share pursuant to the exercise of a share option.

On 26 June 2002 7,672 ordinary shares were issued for cash at 6.193p per share pursuant to the exercise of a share option.

On 5 December 2002 115,077 ordinary shares were issued for cash at 6.193p per share pursuant to the exercise of a share option.

Contingent rights to subscribe for Sopheon shares

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).

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.

At the Annual General Meeting held on 29 May 2002 shareholders approved a maximum of 6,000,000 Sopheon ordinary shares over which options could be granted under any employee share option scheme.

A summary of options granted under the share option schemes at 31 December 2002 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
1998	12,500	1.7000	29-06-98	29-06-03
1998 (1)	21,800	0.0860	29-12-01	29-12-08
1999	2,500	1.4150	20-01-02	20-01-09
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)	8,720	0.8732	01-06-02	01-06-09
1999 (1)	8,720	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)	10,000	9.6000	08-02-01	08-02-10
2000 (2)	10,500	4.9500	28-06-01	28-06-10
2000 (2)	25,000	5.0000	26-06-01	26-06-10
2000	48,500	4.9500	28-06-03	28-06-10
2000	15,000	4.2750	02-10-03	02-10-10
2000 (2)	92,584	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)	115,022	1.6000	31-12-01	31-12-10
2001	18,000	1.0000	01-04-02	01-04-03
2001	87,000	0.7750	02-05-04	02-05-11
2001 (2)	166,536	0.7750	02-05-02	02-05-11
2001 (4)	79,632	0.0619	14-09-01	14-09-08
2002	781,000	0.1475	30-04-05	30-04-12
2002	378,825	0.1475	30-04-02	30-04-12
2002 (2)	1,745,410	0.1475	30-04-03	30-04-12
	3,937,249			

(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 2002 311,760 of such options had lapsed, 1,500 had been exercised, and 405,032 remained outstanding, in respect of which the aggregate exercise price was £1.1 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 2000	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)
Arising on share issues	31	-	8	-	-	-
Lapsing of share options	-	-	-	-	(1,010)	1,010
Retained loss for the year	-	-	-	-	-	(16,053)
Exchange differences	-	-	-	-	-	75
At 31 December 2002	4,147	465	45,380	18,384	4,445	(70,395)

The reserve arising from issue of share options in connection with acquisitions has reduced by £1,010,000 during 2002 as a result of the lapsing of certain share options, as disclosed in Note 18, due to the option-holders ceasing to be employed by the Group.

The amount recorded in respect of "Shares to be issued" represents deferred consideration in respect of the acquisition of Sopheon GmbH, to be satisfied by the issue of Sopheon shares to the vendors, and which is dependant upon the profitability of Sopheon GmbH in the years 2001 to 2003. The maximum amount payable is Euro 1,533,000.

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 2001	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)
Arising on share issues	31	-	8	-	-	-
Lapsing of share options	-	-	-	-	(1,010)	1,010
Retained loss for the year	-	-	-	-	-	(15,509)
At 31 December 2002	4,147	465	45,380	10,619	4,445	(60,242)

Other reserves comprise (for both Group and Company):

	2002 £'000	2001 £'000
Capital redemption reserve	2,884	2,884
Reserve arising from issues of share options in connection with acquisitions	1,561	2,571
	4,445	5,455

20. 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.

	2002	*2001*
	£'000	*£'000*
Floating rate line of credit – US Dollar	917	641
Floating rate overdraft – Sterling	29	68
Fixed rate loans – Sterling	28	78
Fixed rate 6% convertible unsecured loan stock 2004	2,569	2,553
	3,543	3,340

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:

	2002	*2001*
	£'000	*£'000*
Floating rate		
Sterling	1,848	10,511
Euro	749	1,805
	2,597	12,316
Non-interest bearing		
Sterling	161	806
US Dollar	379	115
Euro	218	107
	758	1,028
Total financial assets	3,355	13,344

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	*Euro*	*Total*
	£'000	*£'000*	*£'000*
2001 Sterling	10	272	282
2002 Sterling	123	-	1,213

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. 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	
	2002	*2001*
	£'000	*£'000*
Cash and short term deposits	3,355	13,344
Bank overdrafts and lines of credit	(946)	(709)
Current portion of long-term borrowings	(28)	(54)
Long-term borrowings	-	(25)
Convertible Unsecured Loan Stock 2004	(2,569)	(2,553)

21. POST BALANCE SHEET EVENTS

In April 2003, the Company entered into a letter of intent with a potential purchaser to divest its US-based Information Management (IM) business. Further details are set out in the Directors' Report on page 16.

22. 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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