SOPHEON 2003

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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G r o u p   P r o f i l e

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 process and strategic 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 and the United States. Its clients are R&D-intensive companies in the high tech, life sciences and healthcare industry sectors.

Statement from the Chairman and Chief Executive Officer

December 2003 marked the close to a year of progress and change for Sopheon, as well as disappointments and challenges in its pursuit of strategic business objectives. During the year we transformed the shape of the group, successfully divesting our Information Management divisions in both North America and Germany, at the same time as making several changes to the group's financial structure. This has enabled us to focus on our core software business, based around our flagship product Accolade. In conjunction with these changes, LBITDA was more than halved to £4.1m (2002: £8.9m). We are recognized as a leading supplier of solutions that improve the financial return on innovation and product development investments, areas that continue to receive increasing attention and focus from corporations and commentators alike.

RESULTS AND FINANCE

Sopheon's consolidated revenues were £6.7m (2002: £12.4m) and the consolidated LBITDA was £4.1m (2002: £8.9m). The reported LBITDA does not include the profit on disposal of the divested businesses. Goodwill charges amounted to £4.6m (2002: £5.9m) for the year, offset by gains on divestment amounting to £3.6m (2002: £nil) and research and development tax credits amounting to £0.3m (2002: £0.1m). The resultant retained loss for the year was £5.5m (2002: £16.1m) reducing the loss per ordinary share to 6.3p (2002: 19.4p). This continues the trend of reduction from the 2001 retained loss of £34.6m.

In addition to securing funds from divestment activity, the company raised £1.5m during the year by way of private equity placing to meet ongoing working capital requirements and the costs of restructuring the group. In addition, the board secured approval for the extension of the maturity of the group's £2.6m convertible loan to June 2005. At the year-end, after deducting the convertible loan, the group reported consolidated net liabilities of £1.9m. Net current assets stood at £41,000 and gross cash resources £878,000. The directors are considering a range of options to propose to the holders of the convertible loan in the event that some or all of it remains unconverted at the time of maturity. The loan note has a conversion price of 12p per ordinary share, compared with market prices of 16p and 35p on 31 December 2003 and 30 March 2004 respectively. Alternatives include further extension of the maturity date and redemption at par. A change to the terms of the loan stock instrument would need to be put to a meeting of its holders. At this time it is not anticipated that the alternatives under consideration would require modification of the loan stock conversion price.

In addition, in December 2003 Sopheon concluded an agreement for a €10 million equity line of credit facility with GEM Global Yield Fund Limited, securing access to a source of equity-based funding over which the company retains a substantial degree of control. In the first quarter of 2004 £1.4m before expenses has been raised, with over £0.6m raised through the equity line in March, in addition to a market-driven placing for £0.8m in January. The board is well aware of shareholder concerns over potential dilution arising from use of the equity line and will remain controlled in its use of the instrument. Further issues of shares through the equity line facility may require shareholder approval for an increase in the directors' authority to issue and allot shares. This will be dependent on existing authorities held by the board at the time, the market price of Sopheon's shares and the amount being raised.

2003 TRADING SUMMARY

Our announcements through the third quarter of 2003 highlighted the unpredictable commercial environment and the tough trading conditions that continued to restrict business. In the fourth quarter we noted our perception that the investment climate in our market was at last improving, and in that quarter we set a record with 9 new license orders for Accolade, accompanied by an encouraging pick-up in interest for our Monitor module. Delays in converting certain substantial opportunities precluded us from reaching our stated year-end goal to be generating revenues in excess of our monthly cost base. Nevertheless, in 2003 Sopheon did business with over 50 customers, compared to just over 30 in the previous year, excluding the activities of its divested units. This total also excludes the users of our small-scale laboratory solution in the Netherlands.

Accolade software is now being used in 11 countries, reflecting its appeal to our global clients. Sales cycle times have improved, dropping from 9 months as we entered 2003 to just over 6 months as the year came to a close.

Approximately 60% of revenues relate to businesses that were divested during the year, with the balance of 40% relating to our continuing software based business. Within this element, the proportion of revenue relating to Sopheon's own packaged products as opposed to bespoke and resold products, has grown from 40% in 2001 to over 90% in 2003.

On a consolidated basis, costs contracted by over twice the reduction in revenue, resulting in the substantial fall in consolidated LBITDA. Headcount was reduced to approximately 60 from 180 coming into the year, partly through divestment but also through rationalisation of resources across all parts of our business, implemented in the third quarter of 2003. Coupled with overhead controls, these actions brought the monthly cost base below £0.5m by the end of the year, before depreciation and amortization charges.

2003 was a very busy time with efforts focused on developing an emerging market. We expect that the market momentum resulting from industry's escalating recognition of the strategic importance of product life cycle management will bring a number of new competitors to our space. In our brief history, we have competed with a range of suppliers and have won with consistency. Going forward, we will need to work hard at maintaining a value proposition that differentiates Sopheon from other solutions providers and allows us to perpetuate Accolade's impressive historic success rates in competitive situations.

MARKET

The market for Accolade continues to show growing acceptance by businesses and industry analysts alike, of the need for software that addresses automation and decision-support in product life cycle management ("PLM"). Accolade-specific validation has included best-of-breed designations from analyst firms Gartner, META Group, AMR Research and ARC Research. Accolade was also recently named a "Technology to Watch" by IT advisory group Collaborative Strategies and "Product of the Week" by Product Design and Development magazine, further attesting to market recognition of the significant value and growing market momentum of our solution.

We are continuing to see the positive impact of our strategy of tailoring our solutions to the unique process and decision-support needs of vertical industry segments. For example, during the past year we have captured market share in the specialty chemicals market. Approximately a third of our customers are in this sector, including some of the world's leading chemical producers. These provide an outstanding reference base and a solid foundation for future growth within this key market segment. In December we were awarded an enterprise-level commitment by one of the top-ten companies from this segment.

Another area of progress for Sopheon has been its growing involvement with partners. These relationships, which entail the provision of complementary products and services to support our clients' innovation and product development objectives, include work we have announced with organizations such as the Product Development Institute (PDI), Siemens Business Services and Deloitte Consulting. This is in addition to sales representation in Singapore and Germany, which have each made contributions to revenues. We plan to develop further the level of Sopheon partnership activity in 2004, in line with an anticipated increase in Accolade demand.

One of the principal reasons for Sopheon's confidence in the growth prospects for its business is the way in which our clients have accepted and adopted Accolade. Our product development solution continues to enjoy unusually high adoption and client satisfaction rates. We attribute this to the ease-of-use and embedded process guides that are among Accolade's most important differentiators.

PRODUCT DEVELOPMENT AND IPR

Sopheon Accolade version 5.0 was released in October 2003. It offers more than three dozen new or enhanced features, including industry-specific research centres that support assessment of product ideas and increase the quality of critical portfolio management decisions; tools that aid in project prioritization and corresponding alignment of resources; and new document routing and tracking features that enable compliance with Food and Drug Administration regulation 21 CFR Part 11 and other regulatory standards.

Sopheon holds patents relating to presentation of large domain search results, profiling, and the application of IT to language-intensive processes. All three areas benefit from US patent protection. In line with our vision of underpinning complex business processes such as product development with relevant knowledge management tools, planning is underway for integration of Sopheon's language-intensive capabilities into a future release of Accolade, where it will enhance cross-functional product development, helping teams in global companies create, publish and reuse deliverables and content.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT TEAM

Sopheon's group management and governance structure is divided between a Sopheon plc board of directors and an executive management board responsible for business operations. The Sopheon plc board 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 six, which includes the three executive directors.

OUTLOOK

Our assessment of the economic environment for Sopheon's products and services is more optimistic than in the past. Our products are generating good levels of interest, have an expanding installed and referenceable client base, and enjoy increased validation by the market. Accolade has demonstrated consistently that it is a valuable solution in which clients are prepared to invest. Success remains dependent upon meeting sales targets, and accordingly we continue to exercise balance and caution in our planning approach. The cost base remains under tight control, and the board is striving to protect the high degree of focus that our divestment strategy has achieved.

The board believes that prospects for the company are positive in the current year and beyond, 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.

Overall, we are encouraged by the direction, focus and momentum of our business, and we look forward to a successful 2004.

Barry Mence
Executive Chairman

Andy Michuda
Chief Executive Officer

5 April 2004

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 products 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 supply 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 solutions are likely to be measured.

The value 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's solutions 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 top- and bottom-line results.

"Sopheon has distinguished itself in delivering a process-industry product lifecycle management offering that improves the quality of portfolio management decision-making and reduces administrative burden and other impediments to product development efficiency."

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 within manufacturing environments.

In the mid and late 90's PolyDoc continued to grow its knowledge management and implementation capabilities, while extending its market presence to the U.K. In 1999 the company changed its name to Sopheon. In 2000, Sopheon followed an acquisition strategy to establish a foothold in U.S. markets. That same year, the company began to focus on the development of software and service solutions that could help technology-driven organizations strengthen innovation and improve the business results from new products. In 2001 Sopheon introduced its flagship solution, the Accolade product development system.

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. Sopheon's solutions model and automate the steps of these processes, integrating best-practices with access to market, technical and competitive intelligence to support and inform process decisions.

"We looked at a range of product life cycle and portfolio management offerings that claimed to increase product development speed and efficiency. We chose to partner with Sopheon because Accolade communicates and reinforces [product development] best practices at every step of the development process, while promoting adherence and supporting individual and team success. We concluded that Accolade could help us drive innovation and development-to-market excellence. It has exceeded our expectations."

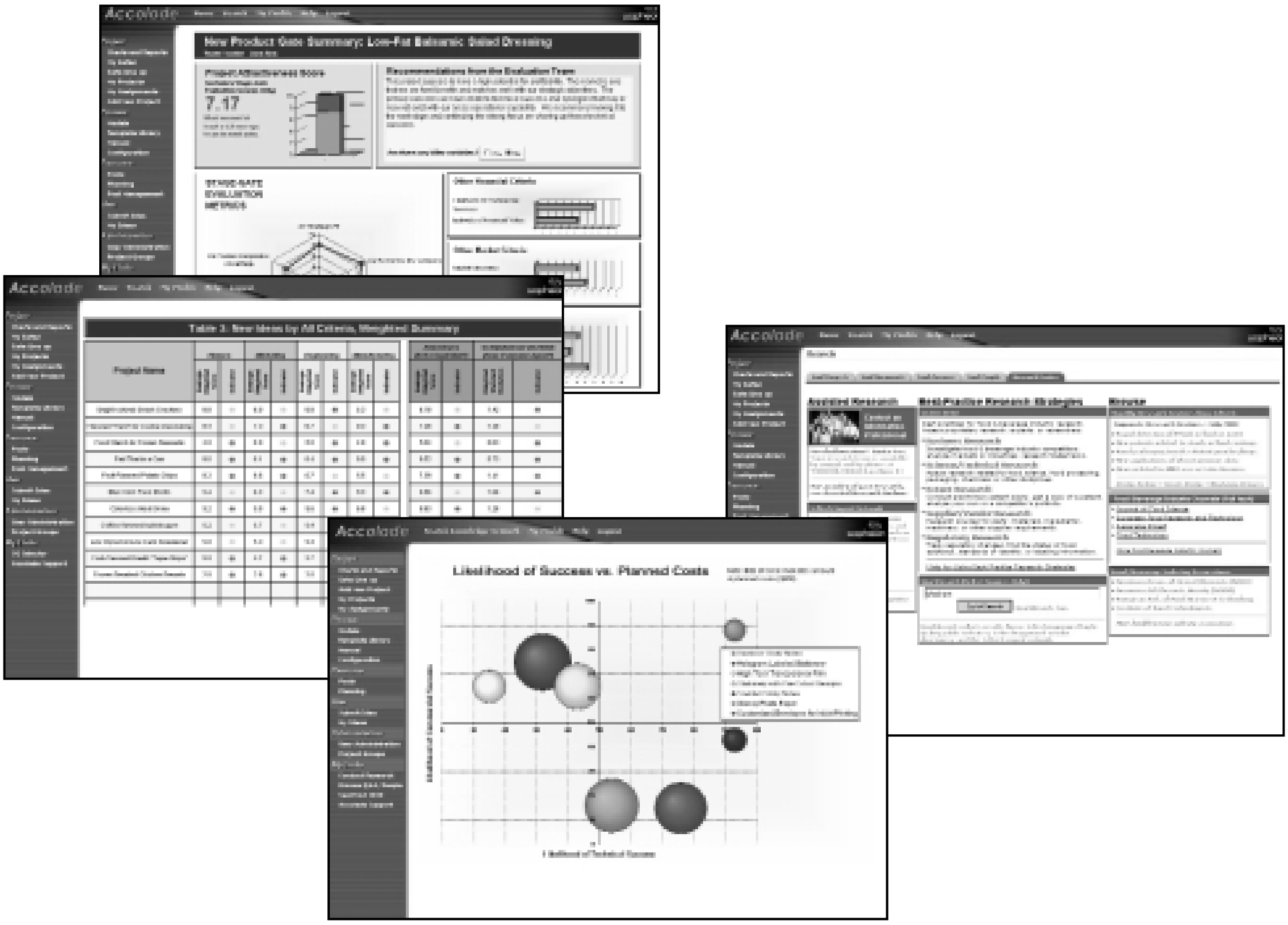
Tim Albright, Product Development Manager, Unifi

BY 2005, MORE THAN 85 PERCENT OF FORTUNE 1000 MANUFACTURERS WILL **INCREASE** THEIR INVESTMENTS IN CAPABILITIES THAT HELP THEM **MANAGE PRODUCT INNOVATION** AND PRODUCT PORTFOLIOS BEYOND 2003 LEVELS.

– Gartner, Inc.
"Predicts 2004: Product Life Cycle Management," M. Halpern, 25, November 2003

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 Dr. Robert Cooper, founder of the Product Development Institute (PDI) and creator 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 organise documents, resources and metrics, facilitate 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. The software system provides a process backbone



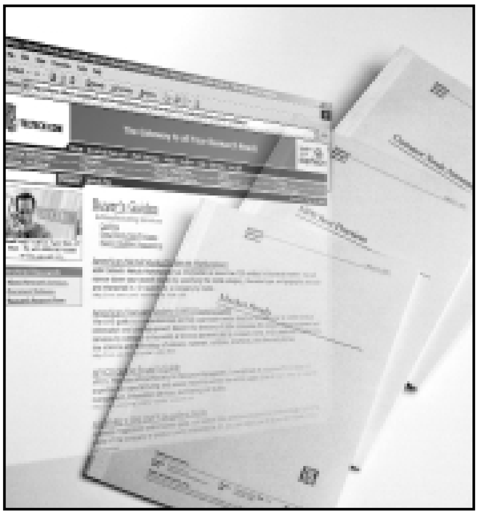
and embedded best-practice manuals that guide users in ensuring that each step of the process is successfully executed. Available modules include an idea management system, a portfolio management tool, screening software that predicts the probability of a product concept's commercial success, and a benchmarking module that identifies product-development process strengths and weaknesses. By applying Accolade's capabilities, cross-functional teams are able to more efficiently and cost-effectively bring products to market. Leading IT research and advisory regard Sopheon's product development solution as best-of-breed within its class.

"Sopheon's portfolio management software provides decision-making support that helps us ensure we're investing resources in the right product ideas. It also makes sure that we have the right balance of product development risk and reward within and across our brands. We've seen significant improvement in our ability to access and apply data for strategic decision-making related to our project portfolio."

Rosemary Grabowski, VP of Value Development, Cadbury Schweppes

Evidence Monitor. Hospitals and clinics are increasingly turning to software-based systems for the management of both medical and non-medical processes. Sopheon's Evidence Monitor solution 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.

Compliance Monitor. Nearly all companies are faced with the challenge of complying with an expanding number of ever-changing federal, state and local regulatory directives, legal requirements and industry technical standards. Sopheon's Compliance Monitor adapts Evidence Monitor technology to support compliance by proactively alerting engineers and other professionals in product development to changes in relevant standards and to new regulatory directives.



"Sopheon's technology helps us harness not only internal information, but critical information from outside our walls. We are benefiting through efficiency gains, heightened process adherence, and increased overall organizational excellence. Sopheon's technology is a vital ingredient in the implementation of our strategies for becoming a highly profitable commercial leader in medical, biotechnology and pharmaceutical markets."

Jan Carpay, former chairman and CEO, azM

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

– PricewaterhouseCoopers Study

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	Surrey Technology Centre 40 Occam Road, Surrey Research Park Guildford, Surrey GU2 7YG	
Registered name and number	Sopheon plc 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 SWIX 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, B. P. F. Al, as chairman, and S. A. Silcock, together with B. K. 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 2003 £	*Benefits 2003 £*	*Total 2003 £*	*Total 2002 £*	*Contributions to Pension 2003 £*	*Contributions to Pension 2002 £*
Executive directors						
B. K. Mence	110,969	4,790	115,759	111,560	4,875	7,475
A. L. Michuda	107,507	5,973	113,480	123,461	2,145	2,267
A. Karimjee	82,500	943	83,443	78,591	3,556	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. B. Davis	18,000	-	18,000	18,000	-	-
D. Metzger (1)	18,000	-	18,000	4,500	-	-
J. M. Shuster (2)	-	-	-	15,117	-	320
	372,976	11,706	384,682	387,229	10,576	13,566

(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.

Directors' Report

Financial Results

The loss for the year ended 31 December 2003 before interest, tax, depreciation and amortisation (LBITDA – see Note 1 for full definition) was £4,066,000 (2002 - £8,910,000) on a turnover of £6,734,000 (2002 - £12,353,000). The retained loss after tax for the year is £5,501,000 (2002 - £16,053,000). 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

Sopheon's consolidated revenues were £6.7m (2002: £12.4m) and the consolidated LBITDA was £4.1m (2002: £8.9m). Goodwill charges amounted to £4.6m (2002: £5.9m) for the year, offset by gains on divestment amounting to £3.6m (2002: £nil) and research and development tax credits amounting to £0.3m (2002: £0.1m). The retained loss for the year was £5.5m (2002: £16.1m) reducing the loss per ordinary share to 6.3p (2002: 19.4p). This continues the trend of reduction from the 2001 retained loss of £34.6m.

Approximately 60% of revenues relate to businesses that were divested during the year, with the remaining 40% relating to our continuing software based business. The proportion of revenue relating to Sopheon's own packaged products, as opposed to bespoke and resold products, has grown from 40% in 2001 to over 90% in 2003.

On a consolidated basis, costs contracted by over twice the reduction in revenue, resulting in the substantial fall in consolidated LBITDA. Headcount was reduced to approximately 60 from 180 coming into the year, partly through divestment but also through rationalisation of resources across all parts of our business, implemented in the third quarter of 2003. Coupled with overhead controls, these actions brought the monthly cost base below £0.5m by the end of the year, before depreciation and amortization charges.

During the year the company, in addition to funds secured from divestment activity, raised £1.5m by way of private equity placing to meet ongoing working capital requirements and the costs of restructuring the group. In addition, the board successfully sought to extend the maturity of the group's £2.6m convertible loan to June 2005. The directors are considering a range of options to propose to the holders of the convertible loan in the event that some or all of it remains unconverted at the time of maturity. These alternatives include further extension of maturity date, and redemption at par. Any change to the terms of the loan stock instrument would need to be put to a meeting of its holders. At the time of preparing this report, it is not anticipated that the alternatives under consideration would require modification of the loan stock conversion price.

At the end of 2003 Sopheon concluded an agreement for a €10 million equity line of credit facility with GEM Global Yield Fund Limited by securing access to a source of equity based funding over which the company retains a substantial degree of control. In the first quarter of 2004 a further £1.4m before expenses has been raised, with over £0.6m raised through the equity line in March 2004, in addition to a market driven placing for £0.8m in January 2004. The board is well aware of shareholder concerns over potential dilution arising from use of the equity line and will remain controlled in its use of the instrument.

The financial statements have been prepared on a going concern basis, the validity of which depends on the eventual terms under which the convertible loan stock is redeemed or converted, the achievement of significantly increased sales targets which represent substantial growth over 2003, and the ability to raise finance if required through the company's equity line facility. If these objectives are not achieved, 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 to the financial statements, which includes an explanation of the basis of preparation of the financial statements.

Research and Development

Accolade 5.0 was released in October 2003 with more than three dozen new or enhanced features that further reduce administrative tasks, help to avoid project delays, and strengthen team productivity by Accolade linking more tightly to components of Microsoft® Office.

Sopheon's development team, based in Denver, 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.

Sopheon holds patents relating to presentation of large domain search results, profiling, and the application of IT to language-intensive processes. All three areas benefit from US patent protection.

Future Developments

The board's assessment of the economic environment for Sopheon's products and services is more optimistic than it has been for a long time, however balance and caution remain a key element of the planning approach. Accordingly Sopheon's cost base remains under tight control, and the board believes it is critical not to disrupt the high degree of focus that our divestment strategy has achieved. Accolade is generating strong interest, has an expanding installed client base, and enjoys increased validation by the market. Accolade has demonstrated, consistently, that it is a valuable solution in which clients are prepared to invest. The board believes that prospects for the company are positive in the current year and beyond, 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.

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	*2003*	*2002*	*2003*	*2002*
B. K. Mence	122,500	122,500	10,997,277	10,997,277
A. L. Michuda	2,998,607	773,607	41,855	41,855
A. Karimjee	562,500	262,500	-	-
S. A. Silcock	-	-	181,383	181,383
S. A. Silcock*	-	-	98,077	98,077
B.P.F. Al	25,000	25,000	393,000	393,000
A.B. Davis	-	-	494,520	494,520
D. Metzger	-	-	-	-

Of the 10,997,277 ordinary shares mentioned above B. K. Mence beneficially owns and is the registered holder of 4,848,657 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.

Listed below are the holdings of the directors of Sopheon Convertible Loan Stock (the "Stock"), which have remained unchanged during the year. On 30 June 2003 at an Extraordinary General Meeting of Stockholders the conversion rate was amended, in accordance with the terms of the Stock, to 12p per share and the maturity of the Stock was extended to 19 June 2005. Further details of the Stock are given in Note 15. The Stock was issued with detachable warrants to subscribe for Sopheon shares at 70p per share, all of which expired unexercised on 19 June 2003.

Name	*Nominal amount of Stock*
B. K. Mence	£390,000
A.L. Michuda	£28,000
A. Karimjee	£17,000
S.A. Silcock	£100,000
B.P.F. Al	£25,000

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 2002*	*Granted during year*	*Exercised during year*	*At 31 December 2003*
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.L. Michuda (3)(4)	5 November 2003	16.25p	-	2,225,000	-	2,225,000
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 (1)	30 April 2002	14.75p	150,000	-	-	150,000
A. Karimjee (1)(4)	5 November 2003	16.25p	-	300,000	-	300,000
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) Options issued at market price. Vesting of a proportion of these options is subject to performance conditions related to the achievement of positive EBITDA in two successive quarters.

The mid-market price of Sopheon ordinary shares at 31 December 2003 was 16p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 25p to 8p.

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

Substantial Shareholdings

The Directors are aware of the following persons who as at 19 March 2004 were interested directly or indirectly in three per cent or more of the company's issued ordinary shares:

Name	*No. of Ordinary Shares*	*% issued Ordinary Shares*
B. K. Mence (Director)	10,997,277	11.4
P.J. Korpershoek	4,000,000	4.1
Aventis Research & Technologies GmbH & Co KG	3,471,191	3.6

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

In addition, the following holders of 6% Convertible Loan Stock 2005 are entitled to exercise conversion rights into ordinary shares as follows:

	Nominal Value of Loan Stock	*No. of shares issuable on full conversion*
Active Capital Trust plc	£1,000,000	8,333,333
Norman Nominees Limited	£650,000	5,416,666

Share Option Schemes

Details of options granted are shown in note 18.

Supplier 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 2003, the company had approximately 50 days' purchases outstanding.

Financial instruments

The group's principal financial instruments comprise the 6% Convertible Loan Stock 2005, 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 2002 and 2003.

Interest rate risk

The group has lines of credit denominated in US Dollars bearing interest at floating rates.

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 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.

Corporate Governance

The Sopheon board is committed to high standards of corporate governance and aims to follow appropriate governance practice, although as a company incorporated in the UK and listed on AIM and Euronext, the company is not subject to the requirements of the new UK Combined Code and the Netherlands Tabaksblat Committee. The board currently comprises three executive directors and four independent non-executive directors. Their biographies appear on the inside back cover of this annual report, and demonstrate a range of experience and calibre to bring the right level of independent judgement to the board.

The board as a whole is responsible for identifying the major business risks faced by the group and for determining the appropriate course of action to manage those risks. Formal meetings are held quarterly to review strategy, management and performance of the group, with additional meetings between these dates convened as necessary. The audit committee, which comprises all the non-executive directors and is chaired by Stuart Silcock, considers and determines actions in respect of any control or financial reporting issues they have identified or that are raised by the auditors. The board has a formal schedule of matters specifically reserved to it for decision. Details of the constitution of the remuneration committee are provided on page 15.

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 5 April 2004 and signed on its behalf by

A. Karimjee
Director

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 2003 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows, Group Statement of Total Recognised 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

The directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, and Chairman's and Chief Executive Officer's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 eventual terms under which the convertible loan stock is redeemed or converted, the achievement of significantly increased sales targets which represent substantial growth over 2003, or the ability of the company to raise additional finance if required, through its equity line facility or by other means. In view of the significance of the uncertainties to which these matters are subject, 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 2003 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

5 April 2004

Group Profit And Loss Account For The Year Ended 31 December 2003

	Notes	Continuing operations 2003 £'000	Discontinued operations 2003 £'000	Total 2003 £'000	2002 £'000	2001 £'000
TURNOVER	2	2,669	4,065	6,734	12,353	13,963
Cost of sales		(627)	(3,490)	(4,117)	(9,002)	(10,186)
GROSS PROFIT		2,042	575	2,617	3,351	3,777
Sales and marketing expenses		(2,868)	(574)	(3,442)	(5,437)	(7,281)
Research and development expenditure		(1,237)	-	(1,237)	(2,331)	(3,010)
Amortisation and impairment charges in respect of goodwill		(503)	(4,083)	(4,586)	(5,922)	(21,431)
Other administrative expenses		(1,703)	(874)	(2,577)	(5,727)	(6,792)
Total administrative expenses		(3,443)	(4,957)	(8,400)	(13,980)	(31,233)
GROUP OPERATING LOSS	3	(4,269)	(4,956)	(9,225)	(16,066)	(34,737)
Share of operating loss of associated undertaking		-	-	-	(46)	(63)
TOTAL OPERATING LOSS		(4,269)	(4,956)	(9,225)	(16,112)	(34,800)
Profit on disposal of operations	11	-	3,568	3,568	-	-
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		(4,269)	(1,388)	(5,657)	(16,112)	(34,800)
Interest receivable				76	260	373
Interest payable and similar charges	5			(225)	(327)	(204)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				(5,806)	(16,179)	(34,631)
Tax on ordinary activities	6			305	126	-
RETAINED LOSS FOR THE YEAR				(5,501)	(16,053)	(34,631)
Loss per share basic and diluted (pence)	8			(6.3p)	(19.4p)	(76.2p)
LOSS ON AN EBITDA BASIS (LBITDA)	1			(4,066)	(8,910)	(11,757)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £'000	2002 £'000	2001 £'000
Loss on ordinary activities after taxation	(5,501)	(16,053)	(34,631)
Exchange difference on retranslation of net assets of subsidiary undertakings	88	75	31
Total recognised losses relating to the year	(5,413)	(15,978)	(34,600)

Group Balance Sheet At 31 December 2003

	Notes	2003 £'000	2002 £'000
FIXED ASSETS			
Intangible assets			
Goodwill	9	440	5,091
Less: Negative goodwill	9	-	(166)
		440	4,925
Tangible Fixed Assets	10	195	900
		635	5,825
CURRENT ASSETS			
Debtors	12	1,159	2,660
Cash at bank and in hand	13	878	3,355
		2,037	6,015
CREDITORS: amounts falling due within one year	14	(1,996)	(6,332)
NET CURRENT ASSETS/(LIABILITIES)		41	(317)
TOTAL ASSETS LESS CURRENT LIABILITIES		676	5,508
CREDITORS: amounts falling due after more than one year			
6% Convertible Unsecured Loan Stock 2005	15	(2,561)	(2,569)
PROVISIONS FOR LIABILITIES AND CHARGES	16	-	(513)
		(1,885)	2,426
CAPITAL AND RESERVES			
Called up share capital	18	4,821	4,147
Shares to be issued	19	-	465
Share premium account	19	46,420	45,380
Merger reserve	19	17,944	18,384
Other reserves	19	4,164	4,445
Profit and loss account	19	(75,234)	(70,395)
Shareholders' (deficit)/funds (all equity interests)		(1,885)	2,426

Approved by the Board on 5 April 2004

Barry K. Mence
Director

Arif Karimjee
Director

Company Balance Sheet At 31 December 2003

	Notes	2003 £'000	2002 £'000
FIXED ASSETS			
Investments	11	6,119	6.119
CURRENT ASSETS			
Debtors	12	116	17
Cash at bank and in hand		670	1,910
		786	1,927
CREDITORS: amounts falling due within one year	14	(441)	(663)
NET CURRENT ASSETS		345	1,264
TOTAL ASSETS LESS CURRENT LIABILITIES		6,464	7,383
CREDITORS: amounts falling due after more than one year			
6% Convertible Unsecured Loan Stock 2005	15	(2,561)	(2,569)
		3,903	4,814
CAPITAL AND RESERVES			
Called up share capital	18	4,821	4,147
Shares to be issued	19	-	465
Share premium account	19	46,420	45,380
Merger reserve	19	10,179	10,619
Other reserves	19	4,164	4,445
Profit and loss account	19	(61,681)	(60,242)
Shareholders' funds (all equity interests)		3,903	4,814

Approved by the Board on 5 April 2004

Barry K. Mence
Director

Arif Karimjee
Director

Group Statement Of Cash Flows For The Year Ended 31 December 2003

	Notes	2003 £'000	2002 £'000	2001 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	3	(4,332)	(10,268)	(11,224)
RETURN ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		76	260	373
Interest paid		(225)	(327)	(204)
		(149)	(67)	169
TAXATION				
Research and development tax credit		305	126	-
CAPITAL EXPENDITURE & FINANCIAL INVESTMENT				
Payments to acquire tangible fixed assets		(27)	(104)	(201)
Receipts from sales of tangible fixed assets		-	18	-
		(27)	(86)	(201)
ACQUISITIONS AND DISPOSALS				
Purchase of subsidiary undertakings		-	-	(668)
Net cash acquired with subsidiary undertakings		-	-	13,705
Net proceeds from disposal of operations	11	1,680	-	-
Net cash disposed of on disposal of operations	11	(649)	-	-
		1,031	-	13,037
MANAGEMENT OF LIQUID RESOURCES				
Decrease/(increase) in short term deposits	13	1,934	8,186	(3,512)
NET CASH OUTFLOW BEFORE FINANCING		(1,238)	(2,109)	(1,731)
FINANCING				
Issues of ordinary share capital		1,480	39	1,567
Issue of convertible loan stock		-	-	2,553
Repayment of long-term loans		-	(51)	(36)
Repayment of capital element of finance lease		-	-	(1)
		1,480	(12)	4,083
INCREASE/(DECREASE) IN CASH	13	242	(2,121)	2,352

1. ACCOUNTING POLICIES

Accounting convention and basis of preparation

The financial statements are prepared under the historical cost convention on the going concern basis, and in accordance with applicable accounting standards. During the year the company divested its loss-making IM operations in North America and Germany, and has significantly reduced the cost-base in its continuing operations. Nevertheless, following these actions, the group has continued to make trading losses, albeit at a much reduced level. At the year-end, after deducting convertible loans of £2.6m, the group reported consolidated net liabilities of £1.9m. Net current assets stood at £41,000 and gross cash resources £878,000.

The directors are considering a range of options to propose to the holders of the company's £2.6m convertible loan, which falls due in June 2005, in the event that some or all of it remains unconverted at the time of maturity. The loan note has a conversion price of 12p per ordinary share, compared with market prices of 16p and 35p on 31 December 2003 and 30 March 2004 respectively. Alternatives include further extension of maturity date, and redemption at par. A change to the terms of the loan stock instrument would need to be put to a meeting of its holders. At the time of preparing this report, it is not anticipated that the alternatives under consideration would require modification of the loan stock conversion price.

On 23 December 2003 the company announced that it had entered into a definitive agreement with GEM Global Yield Fund Limited ("GEM Global") for a €10 million equity line of credit facility. The agreement takes the form of a subscription and share lending agreement ("the Agreement") such that the company may, at its option within the terms of the Agreement, require GEM Global to subscribe for Sopheon shares at a 10% discount to the average market bid price for the 15 days preceding the issue, up to an aggregate of €10 million over the two year life of the Agreement. GEM Global's obligation to subscribe for shares is subject to certain restrictions including the prevailing trading volumes of Sopheon shares on the Euronext stock exchange. On 3 March 2004, the company made a first call on the equity line of credit facility raising £620,000 before expenses by way of a placing of 2,000,000 new ordinary shares for cash. Further issues of shares through the equity line facility may require shareholder approval for an increase in the directors' authority to issue and allot shares. This will be dependent on existing authorities held by the board at the time, the market price of Sopheon's shares and the amount being raised.

In addition to its use of the equity line, the company also raised £828,000 before expenses by way of a placing of 3,600,000 new ordinary shares for cash at 23p per share on 24 January 2004.

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 also depends upon meeting the sales targets on which the trading forecasts for the group are based, which represent substantial growth over 2003. 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 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 the IM division of Sopheon Corporation Minnesota and Sopheon GmbH (formerly the Technology and Information Services Division of Aventis Research & Technologies) have been included up to the dates of disposal, which were respectively 1 July 2003 and 15 August 2003.

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. 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 costs of registering patents and trademarks are written off as incurred. Subsidies received from the European Union and other state agencies are credited to the profit and loss account over the period to which they relate.

Goodwill

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

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.

Leasing

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

LBITDA

LBITDA represents loss before interest, tax, depreciation and amortisation and also excludes non-recurring equity-based costs incurred in connection with acquisitions and profits on disposed operations.

International Financial Reporting Standards ("IFRS")

As a European listed company, Sopheon will be required to adopt IFRS in respect of its financial statements for the year to 31 December 2005. Sopheon is continuing to monitor the impact of adopting IFRS and to prepare for the transition.

2. TURNOVER AND SEGMENTAL INFORMATION

Turnover (excluding valued added tax) represents the amounts derived from the group's principal activity which comprises the design, development, marketing of software products with associated implementation and consultancy services and, decreasingly, the provision of bespoke software solutions. Discontinued activities comprise the provision of bespoke software solutions and research services, by Sopheon GmbH and the IM division of Sopheon Corporation Minnesota up to the relevant dates of disposal. 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

	2003 £'000	2002 £'000	2001 £'000
Software and consultancy services - continuing	2,669	2,854	2,829
Software and consultancy services - discontinued	252	453	825
Information and research services - discontinued	3,813	9,046	10,309
	6,734	12,353	13,963

Analysis of operating loss by area of activity

	Continuing operations 2003 £'000	Discontinued operations 2003 £'000	Total 2003 £'000	2002 £'000	2001 £'000
Continuing operations – software and consultancy	2,042	-	2,042	1,135	719
Discontinued operations	-	575	575	2,216	3,058
Gross margin	2,042	575	2,617	3,351	3,777
Sales and marketing expenses	(2,868)	(574)	(3,442)	(5,437)	(7,281)
Administrative expenses (including goodwill amortisation and impairment charge)	(3,443)	(4,957)	(8,400)	(13,980)	(31,233)
Operating loss	(4,269)	(4,956)	(9,225)	(16,066)	(34,737)

Analysis of turnover by geographical destination

	2003 £'000	2002 £'000	2001 £'000
United Kingdom	551	820	2,026
Rest of Europe	942	835	375
North America	1,069	1,095	201
Rest of World	107	104	227
Continuing operations	2,669	2,854	2,829
United Kingdom	-	9	-
Rest of Europe	1,712	3,177	2,864
North America	2,349	6,296	8,270
Rest of World	4	17	-
Discontinued operations	4,065	9,499	11,134
	6,734	12,353	13,963

Analysis of turnover and operating loss by geographical origin

	Operating loss			*Turnover*		
	2003 £'000	*2002 £'000*	*2001 £'000*	*2003 £'000*	*2002 £'000*	*2001 £'000*
United Kingdom	(1,755)	(4,687)	(9,018)	550	994	2,253
Rest of Europe	(270)	(273)	(1,667)	789	815	375
United States	(2,244)	(2,608)	(2,935)	1,330	1,045	201
Continuing operations	(4,269)	(7,568)	(13,620)	2,669	2,854	2,829
Rest of Europe	(456)	(872)	17	1,712	3,217	2,864
United States	(4,500)	(7,626)	(21,134)	2,353	6,282	8,270
Discontinued operations	(4,956)	(8,498)	(21,117)	4,065	9,499	11,134
	(9,225)	(16,066)	(34,737)	6,734	12,353	13,963

Analysis of net assets/(liabilities) by geographical origin

	2003 £'000	*2002 £'000*	*2001 £'000*
United Kingdom	(87)	162	602
Rest of Europe	6	76	(104)
United States	94	(170)	187
Unallocated cash and loans at group level	(1,898)	(721)	8,229
Continuing operations	(1,885)	(653)	8,914
Rest of Europe	-	16	1,137
United States	-	3,063	8,314
Discontinued operations	-	3,079	9,451
	(1,885)	2,426	18,365

3. OPERATING LOSS

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

	2003 £'000	*2002 £'000*	*2001 £'000*
Auditors' remuneration			
Audit services to UK group companies	69	66	66
Audit services to non-UK group companies	6	29	29
Auditors' remuneration – non-audit services			
Taxation advisory services to UK group companies	31	46	20
Taxation advisory services to non-UK group companies	10	6	6
Transaction support relating to corporate disposals	24	-	-
Research and development expenditure	1,237	2,331	3,010
Grants and subsidies	-	(69)	(19)
Foreign exchange losses/(gains)	23	15	(20)
Amortisation of goodwill	4,586	5,922	12,288
Impairment charge on goodwill	-	-	9,143
Depreciation of owned tangible fixed assets	573	1,280	1,175
Operating lease rentals - land and buildings	537	1,015	916
Operating lease rentals - equipment and vehicles	63	135	191

During 2003 £nil (2002 £nil and 2001 £95,000) 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

	2003 £'000	*2002 £'000*	*2001 £'000*
Operating loss	(9,225)	(16,066)	(34,737)
Depreciation	573	1,280	1,175
Amortisation of goodwill	4,586	5,922	12,288
Impairment charge in respect of goodwill	-	-	9,143
Decrease in debtors	36	948	1,669
Decrease in creditors and provisions	(302)	(2,352)	(762)
Net cash outflow from operating activities	(4,332)	(10,268)	(11,224)

4. STAFF COSTS

	2003 £'000	2002 £'000	2001 £'000
Wages and salaries	5,632	10,580	12,506
Social security costs	557	960	1,082
Other pension costs	96	231	299
	6,285	11,771	13,887

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

	2003 £'000	2002 £'000	2001 £'000
Development and operations	75	151	164
Sales and management	48	81	94
	123	232	258

The above staff costs and the number of employees during the year include the executive directors.

The fees and emoluments of all directors were as follows:

	2003 £'000	2002 £'000	2001 £'000
Fees and emoluments	385	388	409
Pension contributions	11	16	10
	396	404	419

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

	2003 £'000	2002 £'000	2001 £'000
Emoluments	111	118	136
Benefits	5	6	4
Pension contributions to defined contribution scheme	5	2	2
Total	121	126	142

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000	2001 £'000
Bank loans and overdrafts	54	155	115
Convertible loan stock	171	172	89
	225	327	204

6. TAXATION

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	2003 £'000	2002 £'000	2001 £'000
Research and development tax credits in respect of prior years	305	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 39% (2002: 38% and 2001: 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:

	2003 £'000	2002 £'000	2001 £'000
Loss on ordinary activities before tax	(5,806)	(16,179)	(34,631)
Expected tax credit on loss on ordinary activities before tax	2,264	6,148	13,506
Amortisation and impairment charges in respect of goodwill	(1,789)	(2,250)	(8,358)
Shortfall of tax depreciation compared to book depreciation	(52)	(102)	(80)
Utilisation of tax losses against profit on disposal of operations	1,339	-	-
Losses in year not relievable against current tax	(1,762)	(3,796)	(5,068)
Research & development tax credits in respect of prior years	305	126	-
Actual current tax credit (see Note 6(a))	305	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:

	2003 £'000	2002 £'000	2001 £'000
Shortfall of tax depreciation compared to book depreciation	156	104	2
Unrelieved trading losses	20,311	20,888	17,923
Unrecognised deferred tax asset	20,467	20,992	17,925

At 31 December 2003, tax losses estimated at £52.7 million were available to carry forward by the Sopheon plc group, arising from historic losses incurred. These losses represent a potential deferred tax asset of £20.3 million. £13.3 million of the tax losses, and £5.8 million 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 2003 was £2,013,000 (2002 - loss £15,509,000 and 2001 - loss £54,411,000). The loss in 2003 included a net provision of £1,181,000 (2002 - £15,245,000 and 2001 - £54,670,000) 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 £5,501,000 (2002 - £16,053,000 and 2001 - £34,631,000), and on 87,274,941 (2002 - 82,669,430 and 2001 - 45,471,220) 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 2005 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 2003	38,260	(332)
Disposal of subsidiary undertaking	-	332
At 31 December 2003	38,260	-
Amortisation		
At 1 January 2003	33,169	(166)
Provided during the year	4,651	(65)
Disposal of subsidiary undertaking	-	231
At 31 December 2003	37,820	-
Net book value		
At 31 December 2003	440	-
At 31 December 2002	5,091	(166)

10. TANGIBLE FIXED ASSETS

Group only

	Computer equipment £'000	Furniture & fittings £'000	Internet portals £'000	Total £'000
Cost				
At 1 January 2003	2,644	462	761	3,867
Additions	19	8	-	27
Disposals	(78)	(12)	-	(90)
Disposal of operations	(1,027)	(123)	(737)	(1,887)
Exchange adjustments	(1)	(2)	(24)	(27)
At 31 December 2003	1,557	333	-	1,890
Depreciation				
At 1 January 2003	2,051	366	550	2,967
Provided during the year	402	51	120	573
Disposals	(78)	(12)	-	(90)
Disposal of operations	(968)	(110)	(649)	(1,727)
Exchange adjustments	(6)	(1)	(21)	(28)
At 31 December 2003	1,401	294	-	1,695
Net book value				
At 31 December 2003	156	39	-	195
At 31 December 2002	593	96	211	900

11. INVESTMENTS

Company

Investment in subsidiary undertakings

	£'000
Cost:	
At 1 January 2003	53,545
Disposal of subsidiary undertaking	(1,026)
At 31 December 2003	52,519
Amounts provided:	
At 1 January 2003	36,467
Release of provision on disposal of subsidiary undertaking	(1,026)
At 31 December 2003	35,441
Net book value of equity investments at 31 December 2003	17,078
Amounts due to subsidiary undertakings	(10,959)
	6,119
Net book value of equity investments at 31 December 2002	17,078
Amounts due to subsidiary undertakings	(10,959)
	6,119

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%.

Disposals of operations

a) On 1 July 2003 the group completed the disposal of the IM division of Sopheon Corporation Minnesota. The disposal is analysed as follows:

Net liabilities disposed of:	*£'000*
Fixed assets	50
Debtors	857
Creditors and accruals	(832)
Deferred revenue	(1,117)
	(1,042)
Profit on disposal	3,042
	2,000
Satisfied by:	
Cash	1,750
Further amounts due from purchaser	250
	2,000

In the period to 1 July 2003, the IM division of Sopheon Corporation Minnesota contributed £265,000 to the group's operating loss and £145,000 to the group's net operating cash outflow. The tax effect of disposals is set out in note 6.

The further amounts due from the purchaser are subject to final agreement of terms reached in principle regarding payment of earn-outs and escrow balances that comprise securities subject to fluctuations in market value, including 388,350 Sopheon shares, which were issued to the purchaser, FIND/SVP Inc., on 4 July 2003 as referred to in note 18.

b) On 15 August 2003 the group completed the disposal of Sopheon GmbH. The disposal is analysed as follows:

Net liabilities disposed of:	*£'000*
Fixed assets	110
Debtors	956
Cash	649
Creditors and accruals	(859)
Pension provision	(497)
Deferred revenue	(389)
	(30)
Profit on disposal	526
	496
Satisfied by:	
Release of contingent deferred consideration	465
Release of unamortised negative goodwill	101
Cash contribution on disposal	(70)
	496

In the period to 15 August 2003, Sopheon GmbH contributed £521,000 to the group's operating loss and £195,000 to the group's net operating cash outflow. The tax effect of disposals is set out in note 6.

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%	Software sales and services
Sopheon Corporation Delaware, USA	Common Stock	100%	Software development
Sopheon NV The Netherlands	Ordinary Shares	100%	Software sales and services
Lessenger BV The Netherlands	Ordinary Shares	100%	Software sales and services
Sopheon UK Ltd United Kingdom	Ordinary Shares	100%	Software sales and services
Orbital Software Holdings plc United Kingdom	Ordinary Shares	100%	Holding company
Orbital Software Inc.† Delaware, USA	Common Stock	100%	Dormant
Sopheon Edinburgh 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* 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

12. DEBTORS

Group

	2003 £'000	2002 £'000
Trade debtors	589	1,683
Other debtors	320	202
Prepayments and accrued income	250	775
	1,159	2,660

Company

	2003 £'000	2002 £'000
Other debtors	-	7
Prepayments	116	10
	116	17

A full provision has been made against amounts totalling £35,655,000 (2002: £33,448,000) 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 (debt)/ funds.

	2003 £'000	2002 £'000	2001 £'000
(Decrease)/increase in cash	(543)	(1,803)	1,907
Decrease/(increase) in overdrafts and lines of credit	785	(318)	445
Net increase/(decrease) in cash and cash equivalents	242	(2,121)	2,352
Issue of convertible loan stock	-	-	(2,553)
Repayment of term loans	-	51	36
Repayments of capital elements of finance leases	-	-	1
Cash (outflow)/ inflow from change in liquid resources	(1,934)	(8,186)	3,512
Change in net debt resulting from cash flows	(1,692)	(10,256)	3,348
Loans and finance leases acquired with subsidiary	-	-	(63)
Conversion of convertible loan stock	26	-	-
Exchange difference	5	80	(27)
Allocation of convertible loan stock issue costs	(18)	(16)	-
Movement in net (debt)/ funds	(1,679)	(10,192)	3,258
Net (debt)/ funds at 1 January	(189)	10,003	6,745
Net (debt)/ funds at 31 December	(1,868)	(189)	10,003

(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	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2002	2,561	10,783	(709)	(2,553)	(79)	10,003
Cashflow	(1,803)	(8,186)	(318)	-	51	(10,256)
Exchange difference	-	-	80	-	-	80
Allocation of issue costs	-	-	-	(16)	-	(16)
At 31 December 2002	758	2,597	(947)	(2,569)	(28)	(189)
Cashflow	(543)	(1,934)	785	-	-	(1,692)
Conversion of loan stock	-	-	-	26	-	26
Exchange difference	-	-	5	-	-	5
Allocation of issue costs	-	-	-	(18)	-	(18)
At 31 December 2003	215	663	(157)	(2,561)	(28)	(1,868)

14. CREDITORS: amounts falling due within one year

Group

	2003 £'000	2002 £'000
Overdrafts and bank lines of credit	157	947
Current instalments due on bank loan	28	28
Trade creditors	404	1,280
Other taxes and social security costs	94	320
Accruals and deferred income	1,147	3,527
Other creditors	166	230
	1,996	6,332

The bank line of credit is secured against the trade debtors of Sopheon Corporation Minnesota and bears interest at a rate of 2% above US prime rate.

The bank loan comprises 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.

Company

	2003 £'000	2002 £'000
Bank overdraft	2	-
Trade creditors	101	103
Other creditors	78	97
Other taxes and social security costs	-	52
Accruals	260	296
Amount owing to subsidiary undertaking	-	115
	441	663

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

Group and company

	2003	*2002*
	£'000	*£'000*
6% Convertible Unsecured Loan Stock 2005	2,561	2,569

£2.6 million nominal of 6% Convertible Unsecured Loan Stock 2005 ("the Stock"), with 557,143 detachable warrants to subscribe for Sopheon shares, was issued at par on 20 June 2001. The detachable warrants expired unexercised on 19 June 2003. The Stock is redeemable on 19 June 2005 or earlier at the company's option and is convertible into Sopheon shares at the rate of 12p nominal of Stock per share. As at 31 December 2003 £26,000 nominal of the Stock had been converted and the nominal amount outstanding was £2,574,000 (2002: £2,600,000). Issue costs allocated to future periods amounting to £13,000 (2002: £31,000) have been deducted from the nominal amounts outstanding.

16. PROVISIONS FOR LIABILITIES AND CHARGES

Group only

	2003	*2002*
	£'000	*£'000*
Pension provision		
At 1 January 2003	513	461
(Decrease)/increase in provision during year	(53)	21
Exchange difference	37	31
Disposal of subsidiary undertaking	(497)	-
At 31 December 2003	-	513

The pension provision represented the commitment of Sopheon GmbH, which was divested during the year, to provide certain employees with pensions based upon final pensionable salary. As a result of the disposal, the group no longer has any liabilities to provide future pensions.

17. OBLIGATIONS UNDER LEASES

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

At 31 December 2002 and 2003 the group had annual commitments under operating leases as set out below.

Group only

	Land & Buildings 2003 £'000	*Other 2003 £'000*	*Land & Buildings 2002 £'000*	*Other 2002 £'000*
Operating leases which expire:				
within one year	102	45	417	26
in two to five years	261	36	328	99
Totals	363	81	745	125

18. SHARE CAPITAL

Authorised	*2003 Number*	*2003 £*	*2002 Number*	*2002 £*
Ordinary shares of 5p each	125,000,000	6,250,000	125,000,000	6,250,000

Allotted, called up and fully paid	*2003 Number*	*2003 £*	*2002 Number*	*2002 £*
Ordinary shares of 5p each	96,410,019	4,820,501	82,933,309	4,146,665

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.

On 5 March 2003 15,344 ordinary shares were issued for cash at 6.193p per share pursuant to the exercise of a share option.

On 17 March 2003 7,672 ordinary shares were issued for cash at 6.193p per share pursuant to the exercise of a share option.

On 16 June 2003 4,500,000 ordinary shares were issued for cash at 12p per share by way of a share placing to raise £520,000 net of expenses.

On 4 July 2003 388,350 ordinary shares were issued to FIND/SVP Inc pursuant to the agreement for the sale of Sopheon's North American IM business, representing an amount of $100,000 (£59,880) satisfied by the issue of Sopheon shares.

On 11 August 2003 15,344 ordinary shares were issued for cash at 6.193p per share pursuant to the exercise of a share option.

On 3 September 2003 116,666 ordinary shares were issued on conversion of £14,000 nominal of 6% Convertible Loan Stock 2005.

On 22 October 2003 8,333,334 ordinary shares were issued for cash at 12p per share by way of a share placing to raise £960,000 net of expenses.

On 20 November 2003 100,000 ordinary shares were issued on conversion of £12,000 nominal of 6% Convertible Loan Stock 2005.

On 23rd December 2003 the company announced that it had entered into a definitive agreement with GEM Global Yield Fund Limited ("GEM Global") for a Euro 10 million equity line of credit facility. The agreement takes the form of a subscription and share lending agreement ("the Agreement") such that the company may, at its option within the terms of the Agreement, require GEM Global to subscribe for Sopheon shares at a 10% discount to the average market bid price for the 15 days preceding the issue, up to an aggregate of Euro 10 million over the two year life of the Agreement. GEM Global's obligation to subscribe for shares is subject to certain restrictions including the prevailing trading volumes of Sopheon shares on the Euronext stock exchange. In all other respects the company will remain in control of the amount and timing of any subscription under the equity line and is under no obligation to use the facility at any point during the term.

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. In accordance with the terms of the Stock, on 30 June 2003 the conversion rate was adjusted to 12p per share, following the cash placing of new shares in the market at 12p per share on 16 June 2003. The warrants expired unexercised on 19 June 2003.

Employee share option schemes

On 28 August 1996 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.

On the same date 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.

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 30 July 2003 shareholders approved a maximum of 8,500,000 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 2003 is set out below.

		Exercise	Exercise Period	
Year of grant	Number	Price (£)	From	To
1996	40,000	0.2000	28-08-96	21-07-06
1998 (1)	21,800	0.0860	29-12-01	29-12-08
1999	12,500	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 (2)	52,500	1.5000	03-11-00	03-11-09
1999	10,000	1.5000	03-11-02	03-11-09
1999	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)	9,500	4.9500	28-06-01	28-06-10
2000 (2)	25,000	5.0000	26-06-01	26-06-10
2000	14,000	4.9500	28-06-03	28-06-10
2000 (2)	31,183	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)	108,862	1.6000	31-12-01	31-12-10
2001	74,500	0.7750	02-05-04	02-05-11
2001 (2)	119,829	0.7750	02-05-02	02-05-11
2001 (4)	11,508	0.0619	14-09-01	14-09-08
2002	330,000	0.1475	30-04-05	30-04-12
2002	239,750	0.1475	30-04-02	30-04-07
2002 (2)	1,330,551	0.1475	30-04-03	30-04-12
2003 (2)	30,000	0.1475	07-07-03	07-07-13
2003 (3)	585,000	0.1625	05-11-03	05-11-08
2003 (2) (3)	4,345,000	0.1625	05-11-04	05-11-13
2003 (3)	515,000	0.1625	05-11-06	05-11-13
	8,123,983			

(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 performance conditions related to the achievement of positive EBITDA in two seccessive quarters, or to the achievement of individual sales 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 2003 345,900 of such options had lapsed, 1,500 had been exercised, and 370,892 remained outstanding, in respect of which the aggregate exercise price was £0.8 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 2002	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)
Arising on share issues	661	-	878	-	-	-
Exercise of share options and conversion of loan stock	13	-	162	-	(147)	-
Lapsing of share options	-	-	-	-	(134)	134
Disposal of subsidiary	-	(465)	-	(440)	-	440
Retained loss for the year	-	-	-	-	-	(5,501)
Exchange differences	-	-	-	-	-	88
At 31 December 2003	4,821	-	46,420	17,944	4,164	(75,234)

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 2002	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)
Arising on share issues	661	-	878	-	-	-
Exercise of share options and conversion of loan stock	13	-	162	-	(147)	-
Lapsing of share options	-	-	-	-	(134)	134
Disposal of subsidiary	-	(465)	-	(440)	-	440
Retained loss for the year	-	-	-	-	-	(2,013)
At 31 December 2003	4,821	-	46,420	10,179	4,164	(61,681)

Other reserves comprise (for both Group and Company):

	2003 *£'000*	*2002* *£'000*
Capital redemption reserve	2,884	2,884
Reserve arising from issues of share options in connection with acquisitions	1,280	1,561
	4,164	4,445

The reserve arising from issue of share options in connection with acquisitions has reduced during 2003 by £147,000 as a result of the exercise of share options and by £134,000 as a result of the lapsing of share options due to the option-holders ceasing to be employed by the Group.

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.

	2003 *£'000*	*2002* *£'000*
Floating rate line of credit – US Dollar	155	917
Floating rate overdraft – Sterling	2	29
Floating rate loans – Sterling	28	28
Fixed rate 6% convertible unsecured loan stock 2005	2,561	2,569
	2,746	3,543

Other than the 6% Convertible Loan Stock 2005, 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:

	2003 *£'000*	*2002* *£'000*
Floating rate		
Sterling	663	1,848
Euro	-	749
	663	2,597
Non-interest bearing		
Sterling	38	161
US Dollar	150	379
Euro	27	218
	215	758
Total financial assets	878	3,355

Currency exposures

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

	Net foreign currency monetary assets
	US dollar
	£'000
2002 Sterling	123
2003 Sterling	9

Maturity of financial liabilities

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

Borrowing facilities

The group had no undrawn committed borrowing facilities available at each relevant year-end, apart from the bank line of credit referred to in Note 14.

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 and fair value	
	2003	*2002*
	£'000	*£'000*
Cash and short term deposits	878	3,355
Bank overdrafts and lines of credit	(157)	(946)
Current instalments on bank loans	(28)	(28)
Convertible Unsecured Loan Stock 2005	(2,561)	(2,569)

21. POST BALANCE SHEET EVENTS

On 24 January 2004 the company issued 3,600,000 new ordinary shares by way of a placing for cash at 23p per share to raise £828,000 before expenses. On 3 March 2004, the company raised £620,000 before expenses by way of a placing of 2,000,000 new ordinary shares for cash under its equity line of credit arrangement with GEM Global Yield Fund Limited.

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 financial statements of Sopheon NV to the Trade Register in the Netherlands.

Directors and Senior Management

Barry Mence, Executive Chairman. Barry Mence has served as executive chairman, and as a director and substantial shareholder of Sopheon, since its inception in 1993 when he was one of the founding members. From 1976 to 1990, Mr. Mence was the major shareholder and group managing director of the Rendeck Group of Companies, a software and services group based in the Netherlands.

Andrew Michuda, Executive Director. Andrew Michuda was appointed chief executive officer of Sopheon in September 2000. From 1997 to 2000 he served as chief executive officer and an executive director of Teltech Resource Network Corporation, which was acquired by Sopheon. He earlier held senior leadership positions at Control Data, including general manager of the business that evolved into Decision Data, the world's largest independent computer services provider.

Arif Karimjee, ACA, Executive Director. Arif Karimjee has served as chief financial officer of Sopheon since February 2000. Mr. Karimjee was previously an accountant and auditor with Ernst & Young from August 1988 until joining Sopheon.

Stuart Silcock, FCA, Non-executive Director. Stuart Silcock has served as a director of Sopheon from its inception in 1993. Since 1982, Mr. Silcock has been a principal partner of Lawfords & Co. and a director of Lawfords Ltd., chartered accountants. Mr. Silcock has been a non-executive director of Brown & Jackson plc since June 2001, and also holds a number of other UK directorships.

Bernard Al, Non-executive Director. Bernard Al was appointed as director of Sopheon in January 2001. He is a former chief executive officer of Wolters Kluwer in the Netherlands and has a background in science and linguistics.

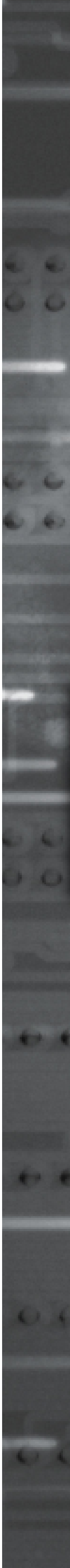
Andrew Davis, Non-executive Director. Andrew Davis was a founder of Spider Systems Limited in 1983 and held the post of chief technology officer for 12 years. He left Spider Systems Limited in 1995 when it was sold to Shiva Corporation. Since then he has been an investor and director in a number of companies, including Orbital Software Holdings plc.

Daniel Metzger, Non-executive Director. Daniel Metzger was until 1998 an executive vice president of Lawson Software, a leading ERP provider, where he was responsible for corporate strategy and marketing. Since then he has held similar roles at Parametric Technologies, where he led the business strategy and marketing around collaborative product development technologies and at nQuire Software, which was subsequently sold to Siebel.

J. Christian Hawver, Chief Marketing Officer. Chris Hawver was appointed chief marketing officer in November 2000. He was previously involved with business and channel development for international information technology businesses including Achieve Healthcare, Medical Documenting Systems and Data General.

Paul Heller, Chief Technology Officer. Paul Heller was appointed chief technology officer in June 1999. He was previously vice president of product management for Baan Company.

Huub Rutten, Vice President of Product Research and Design. Huub Rutten is responsible for Sopheon's healthcare business in the Netherlands and also has responsibility for product research. A founder of Sopheon, he was a director until September 2000 when he assumed a more operational role.



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