SOPHEON 2009 ANNUAL REPORT




sopheon

Where innovation means business™

Sopheon is an international provider of software and services. Sopheon's software applications automate product development and strategic product planning, delivering efficiencies and decision support that enable companies to generate more revenue and profit from product innovation.

Sopheon's software solves the challenge of synchronizing innovation planning and execution – an industry first – with new capabilities that address the needs of a growing range of companies.

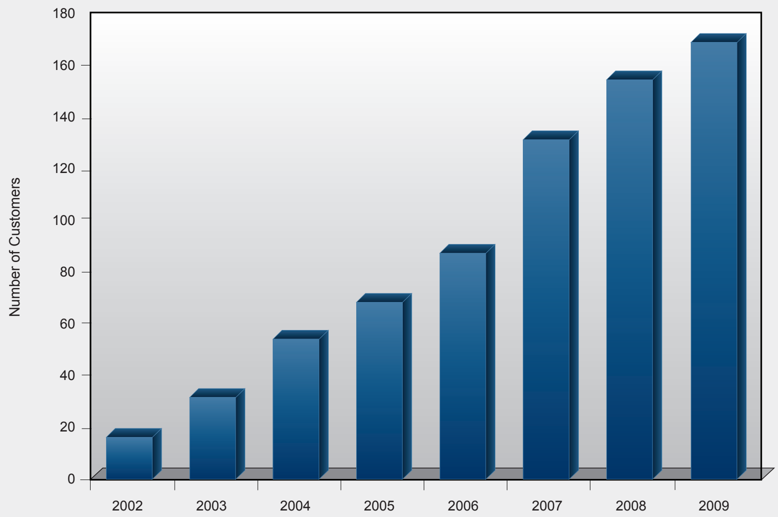
GM
Electrolux
BASF The Chemical Company
Cadbury
verizon wireless
Bostik
PEPSI
FrieslandCampina
SAB MILLER
GLATFELTER
Bristol-Myers Squibb Company
CORNING
Domtar
MILLIPORE
Parker
Celanese
NOVARTIS
CHURCH & DWIGHT CO., INC.
MOTOROLA
BAE SYSTEMS
Freudenberg
PALL Pall Corporation
RECKITT BENCKISER
NORTHROP GRUMMAN
Fresenius Medical Care
GROHE WATER TECHNOLOGY
CYTEC Surface Specialties
Honeywell
The Solae Company
Ciba
BDF Beiersdorf

Summary Results and Trends

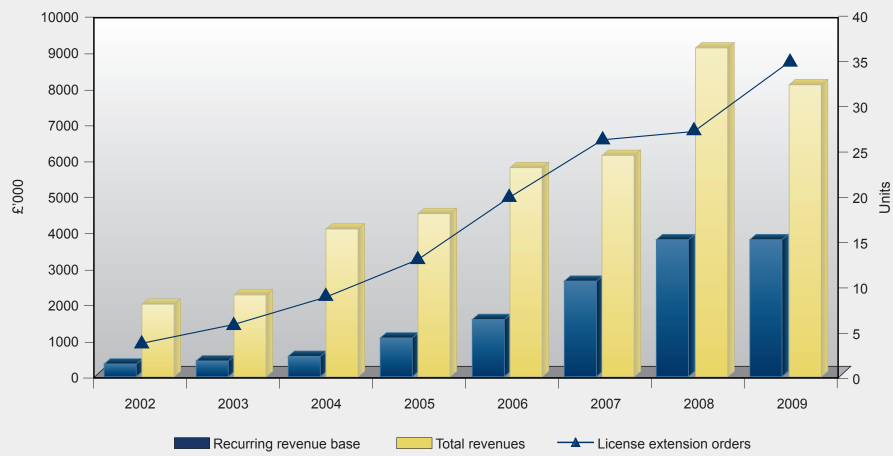
		2009	2008	2007	2006	2005
Revenue	**£'000**	**8,260**	**9,304**	**6,332**	**6,045**	**4,664**
EBITDA	**£'000**	**(195)**	**1,120**	**113**	**33**	**(746)**
Profit before tax	**£'000**	**(1,494)**	**44**	**(443)**	**(303)**	**(1,236)**
Earnings per share	**pence**	**(1.03)**	**0.02**	**(0.32)**	**(0.23)**	**(0.94)**
Net assets	**£'000**	**2,685**	**4,268**	**3,310**	**1,620**	**1,951**
Gross cash	**£'000**	**1,624**	**2,586**	**2,053**	**1,034**	**1,970**
Working capital	**£'000**	**2,001**	**3,068**	**2,140**	**1,667**	**1,932**
Long-term liabilities	**£'000**	**(1,222)**	**(1,105)**	**(1,195)**	**-**	**-**

Working capital is calculated as net current assets after adding back deferred income.

Much in line with the majority of businesses across the world, 2009 was a tough year for Sopheon. After reporting growth approaching 50 percent the year before, a fall of 11 percent in the top line was disappointing and had a marked impact on the bottom line.



During 2009 we grew our customer base to 168 licensees.



We have grown our business by an annualized average of 29 percent since the launch of Accolade. 2009 was a tough year for new sales, but business from our existing customers was solid and represented 85 percent of total revenues.

STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Performance

Much in line with the majority of businesses across the world, 2009 was a tough year for Sopheon with revenues of £8.3m. This compares to £9.3m in 2008, and £6.3m in 2007. After reporting growth approaching 50 percent the year before, this fall of 11 percent was clearly disappointing. The impact on our bottom line was marked, with an EBITDA loss of £0.2m compared to £1.1m profit the year before, and a loss after tax of £1.5m compared to a breakeven position for 2008. In response to these shifts in performance, we took decisive cost actions during 2009, and have reduced staffing from 105 to 85 over the year.

In our half year results for 2009 we signalled the challenging nature of the business environment, but in the latter part of the year we noted some evidence of improvement, with the potential for a good recovery in the final quarter of 2009. This proved to be the case, with 21 new and extension license orders in the fourth quarter, compared to a total of 27 for the first three quarters. In addition to the improvement in sales, the careful adjustments that we made to our cost base earlier in 2009 contributed to a positive EBITDA result for the second half of the year.

Total license transactions including extension orders were 48 in 2009 compared to 53 in 2008. We entered 2009 with a licensee base of 157 companies, and grew this to 168 by the end of the year. Total business from existing customers represented 85 percent of revenues in 2009 compared to 65 percent in 2008; this underlines the strength of our customer base and the value that our customers ascribe to their Sopheon solutions.

From a geographical standpoint, the relative importance of the US rose from 64 percent to 69 percent, with Dollar strength playing a role in the increase. Reseller partners accounted for 9 percent of revenues, down from 11 percent the year before. Accolade® Vision Strategist™ contributed approximately 12 percent of total revenues during 2009 compared to 13 percent in 2008. Many of our customers were affected by the economic difficulties, and we did experience some terminations of maintenance and rental contracts during the year. However, when offset by new orders received, the base of recurring revenue remained steady at £3.7m coming into 2010, the same as in 2009. By comparison, we entered 2008 with recurring revenues totaling £2.6m.

At the date of this report, full-year 2010 revenue visibility incorporating booked revenue, contracted services business and the run rate of recurring contracts already stands at £4.8m. Revenue visibility is more fully defined in Note 4.

Clearly, our growth was interrupted in 2009. We believe that the fourth quarter showed positive signs of a return to better times. However, our business performance remains subject to the timing and size of relatively small number of transactions. This ongoing challenge, combined with the continuing economic uncertainties lead us to adopt a prudent stance in planning our operations.

Strategy and Product

Our investment and progress in both product and marketing during the course of 2009 reflect our goal of continued leadership of our chosen markets. In May, we launched Accolade Idea Lab™ in partnership with Hype GmbH, bringing to

Accolade® is a registered trademark of Sopheon plc.
Vision Strategist™, Process Manager™ and Idea Lab™ are trademarks of Sopheon plc.

market the first integrated solution that not only facilitates generation and development of ideas, but makes it possible to seamlessly move those ideas into product development for execution. During October, we completed a major new version of our Accolade Vision Strategist roadmapping software. Principal advances include greater ease of use, and increased support for collaboration throughout the product planning process. We have also been making significant changes to our core innovation process management software. These changes include a number of product extensions fulfilling short-term market requirements that will not only benefit our existing client base but also expand our differentiation, and deepen our value proposition.

In conjunction with product advancements, we have invested in new marketing capabilities that leverage emerging channels such as social media. These new practices have the promise to fundamentally transform the way in which we identify, create and nurture relationships with existing and potential customers. We have also worked hard to improve the strength of our partner relationships through the tough economy, both at the reseller level and at the strategic level. We expect this to bear fruit in 2010.

Major analyst organizations like Forrester, Gartner and IDC continue to see traction and opportunity in our chosen market. In December 2009, Forrester noted increasing interest and investment in project portfolio management tools for product development, and in the same month Gartner noted that software that supports product strategy and planning is gaining attention as a segment of the PLM (Product Lifecycle Management) software market. Forrester also identified Sopheon as one of the clear market share leaders in the PPM space.

People

One of Sopheon's proven market differentiations is the deep domain expertise our people have gained around Innovation Governance. This knowledge and experience has been created over many years from working with industry leading companies on this emerging business process. We are very proud of the commitment that our staff have shown in achieving leadership in this area, and in maintaining it through the cost adjustments implemented during the last year. We are confident that we have protected and continue to grow this very important competency in our people, while also continuing to invest in our internal best practices and our knowledge sharing programs.

Sopheon's executive management team, which has been in place for several years, consists of five members. Our CFO Arif Karimjee and the two of us serve on the team, and also act as executive directors. Our CTO Paul Heller, and vice president of research Huub Rutten, complete the group. Executive management is complemented by a strong operational management team that leads the marketing, sales and professional services functions. The Sopheon plc board is made up of the three executive directors, augmented by three non-executive directors who bring a wealth of knowledge and experience to our business. Details about each of us are on the inside back cover of this report.

Outlook

We entered 2009 cautiously optimistic, but with tight operational plans that made spending contingent on historic and forecasted revenue performance on a quarter-by-quarter basis. As events turned out, our caution was well founded and the second and third quarters of the year proved particularly challenging. We made immediate cost adjustments, but have been very careful to preserve our ability to fully pursue our promising sales pipeline. This remains very active, and leads us to believe that the improvements in the final quarter of 2009 are persisting. Nevertheless, in this environment it is tough to predict growth with accuracy. Accordingly we approach 2010 with the same mindset as 2009. We recognize, as before, that this approach may restrict our growth trajectory in the short-term, but it will nevertheless underpin all hiring and expenditure decisions.

Strategically, we believe Sopheon's position continues to strengthen. Innovation remains a key priority at many corporations. We are the only vendor that can offer customers a total solution for governance of innovation, covering both strategy and execution, while fully integrating an ideation platform. We have 168 customers under license, with strong representation from our core target vertical markets of chemicals, food and beverage, consumer products and defense. We are also gaining footholds in the high-technology and medical device sectors. Our existing customers contributed 85 percent of revenues, and 70 percent of new orders during the year, validating the benefits of our solutions. During the year, organizations such as Novartis, PepsiCo, the U.S. Army, SABMiller, ConAgra, Bostik and Bell Helicopter extended their investment in Sopheon's products.

Sales cycles continue to be extended, with an increased number of approvals required to get each transaction concluded. However, revenue visibility for 2010 already stands at £4.8m and our sales pipeline remains resilient. Our final quarter of last year saw a return to decent levels of business, and was profitable. Accordingly, while we continue to adopt a prudent stance, we remain excited about our recent developments, and about our future.

Barry Mence
Executive Chairman

Andy Michuda
Chief Executive Officer

24 March 2010

FINANCIAL AND OPERATING REVIEW

Trading Performance

Sopheon's consolidated revenue in 2009 was £8.3m compared to £9.3m in 2008, a reduction of 11 percent. From a geographical standpoint, the fall was more pronounced in our European markets, although the reduction in US performance was offset to a degree by the relative strengthening of the US Dollar compared to Sterling. As a proportion of overall revenue, the US markets accounted for 69 percent in 2009 compared to 64 percent in 2008.

Total license transactions including extension orders were 48 in 2009 compared to 53 in 2008, a reduction of 9 percent. License transactions included 10 relating to the Accolade Vision Strategist solution, acquired with the Alignent business in June 2007. Overall, the former Alignent business contributed approximately 12 percent of total revenues during 2009 compared to 13 percent in 2008.

The annualized average growth of the business since the launch of Accolade is approximately 29 percent.

Business Mix

Overall, in 2009 our business delivered a 32:42:26 ratio of license, maintenance, service respectively compared to 45:28:27 in the prior year. The maintenance category also includes revenue derived from hosting services. In addition to the small drop in volumes year over year, the average value of each transaction fell, further contributing to the relative fall in the proportion of revenues derived from license sales. The smaller size of each transaction also impacted services revenues, which rose slightly as a proportion of total revenues, but fell in absolute terms.

An important factor in such tough economic times is the strength of customer relationships, and approximately 70 percent of the value of orders (excluding recurring revenues) in 2009 was derived from our existing customers. Indeed, services revenue from existing customers went up during the year from £1.3m in 2008 to £1.6m in 2009. We continue to expect that in time, services will moderate as a proportion of our total revenues by the effect of license business coming through partners, for which associated services work is unlikely to be performed by Sopheon.

Notwithstanding these strong customer relationships, some of our customers did terminate maintenance or rental contracts during the year, typically due to unprecedented internal budget pressures coupled with staff changes or merger activity. Nevertheless, thanks to the new licenses signed during the year, the base of recurring revenue has remained steady at £3.7m coming into 2010, the same as in 2009. The majority of this income is represented by maintenance services, but also includes hosting services and license rentals.

Overall gross margins have fallen to 71 percent (2008: 75 percent) which can be largely attributed to the fall in the relative proportion of license revenues. In future, license margins may also be slightly affected by decisions to embed, rather than build, certain third party components or methods of working into our software. During the year we have been quick to control margins in our professional services team, taking difficult decisions during the year to reduce permanent headcount in both territories, to reflect the reduction in services revenues. As and when markets pick up again, our expectation is to maintain flexibility by initially relying on subcontracted resources, prior to shifting back into recruitment of permanent staff.

Research and Development Expenditure

Sopheon's investment and progress in product development during the course of 2009 reflect our goal of continued leadership of our chosen markets. We launched Accolade Idea Lab in May, and completed a major new version of our Accolade Vision Strategist roadmapping software in October. We also made significant changes to our core innovation process management software. Further details of these developments can be found elsewhere in this report. Sopheon is committed to product leadership with excellence in research and development a core competency of the group; since 2001 Sopheon has maintained research and development costs above 20 percent of revenues. Our decision to maintain this level of investment in spite of the tough economic conditions, resulted in this ratio rising to 27 percent of revenues in 2009, compared to 22 percent in 2008.

Headline research and development expenditure rose by 11 percent from £2m to £2.2m. The net impact on these headline amounts of capitalization, amortization and impairment charges associated with research and development in 2009 was to reduce the reported expenditure by £0.1m (2008: £Nil) and accordingly, the apparent increase in operating terms year on year was actually £0.3m. The majority of our development resources are based in the USA and this increase can largely be attributed to the relative strength of the US Dollar; the underlying spend in dollars was relatively flat. The amount of 2008 research and development expenditure that met the criteria of IAS38 for capitalization rose to £0.9m (2008: £0.8m).

Operating Costs

Overall staff costs have increased by £0.6m. The apparent increase is entirely due to the impact of Sterling weakness against the US Dollar and the Euro; most of our staff are located outside the UK. Using constant exchange rates, staff costs actually fell by £0.4m. This can in turn be largely attributed to the fact that the majority of group's employees did not earn a bonus in 2009, due to the financial performance during the year. Average staffing levels appear constant at 99 in 2009 compared to 98 in 2008; this disguises an increase from 92 to 105 in the course of 2008, which was then reduced to 85 by the end of 2009. As noted above the majority of the reduction has been implemented in professional services. Other areas affected were sales and marketing, and product development; the former in the early part of 2009, and the latter towards the end of the year. This profile reflects our decision to maintain investment in product at high levels during 2009.

Detailed comments regarding professional services and research and development costs are noted above.

Headline distribution costs dipped slightly from £3.5m in 2008 to £3.4m in 2009. To a degree this reflects lower amortization and impairment charges for the intangible customer assets acquired with Alignent in 2007. However, as noted before, the effect of currency exchange factors on the reported figures disguises a fall in the underlying costs in US Dollar and Euro, due primarily to lower commission payments. Average headcount in sales and marketing remained relatively constant.

Headline administration costs have risen by £0.3m. As we noted in the 2008 report, that year recorded substantial exchange gains relating to the foreign currency cash balances held in Sopheon plc, which did not recur in 2009. The apparent increase is due to the higher Sterling impact of such costs in our US and Netherlands operations. The underlying administration costs and resourcing have remained broadly constant, as they did from 2007 to 2008.

Results

The combined effect of the revenue and cost performance discussed above impacted Sopheon's EBITDA performance for 2009, which was a loss of £0.2m (2008: £1.1m profit).

In common with other businesses in our sector, Sopheon measures its annual performance using EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) which the board believes provides a useful indicator of the operating performance of our business by removing the effect on earnings of tax, capital spend and financing. EBITDA is further defined and reconciled to the profit before tax in Note 4 of the financial statements. Our calculation of EBITDA is stated after charging (i) share based payments of £0.1m (2008: £0.1m); (ii) impairment charges of acquired intangible assets of £0.2m (2008: £0.3m); and (iii) exchange losses of £31,000 (2008: £0.2m gain) but excludes depreciation and amortization charges for the year of £1.1m (2008: £0.9m) and net finance costs of £0.2m (2008: £0.2m).

Including the effect of interest, depreciation and amortization, the group reported a loss before tax for the year of just under £1.5m (2008: £44,000 profit). There is no tax provision in the year, compared to a charge of £15,000 for 2008 which reduced retained profit after tax to £29,000 that year. The loss per ordinary share was 1.03p (2008: 0.02p profit).

The better revenue performance in the closing months of 2009, coupled with cost adjustments made earlier in the year, led to a profitable final quarter at both EBITDA and retained profit levels.

Financing and Balance Sheet

The effect of exchange rates on the income statement is quite different to the impact on the balance sheet. As noted above, the former is characterized by Sterling being weaker on average during 2009 compared to 2008, relative to the US Dollar and the Euro. The latter is characterized by Sterling being stronger at 31 December 2009 compared to 31 December 2008, relative to the US Dollar and the Euro.

Net assets at the end of the year stood at £2.7m (2008: £4.3m). Gross cash resources at 31 December 2009 amounted to £1.6m (2008: £2.6m). Approximately £0.8m was held in US Dollars, £0.4m in Euros and £0.4m in Sterling.

Intangible assets stood at £4.0m (2008: £4.7m) at the end of the year. This includes (i) £2.4m being the net book value of capitalized research and development (2008: £2.4m) and (ii) an additional £1.6m (2008: £2.3m) being the net book value of Alignent intangible assets acquired in 2007. The apparently constant level of the capitalized research and development, disguises an increase in the underlying US Dollar value offset by a fall in the relative value of the US Dollar compared to Sterling at the balance sheet date. This has also caused part of the fall in carrying value of the Alignent intangibles, in addition to amortization and impairment charges. Further details are set forth in Note 14.

As part of the funding raised for the Alignent acquisition, Sopheon secured $3.5m of medium-term debt from BlueCrest Capital Finance LLC (“BlueCrest”). The debt is being repaid in 48 equal monthly installments, and is secured by a debenture and guarantee from Sopheon plc. Since inception through the end of 2009, $1.9m of the medium-term debt principal has been repaid.

The group also had an additional $750,000 revolving credit facility from BlueCrest, secured on accounts receivable. During 2009, this was renegotiated to $1,250,000. Further details are set out in Note 20 of the financial statements. At year end, short-term borrowings connected with the group’s revolving facilities were £756,000 (2008: £522,000). This represents underlying US Dollar values of $1,220,000 (2008: $750,000).

On 1 October 2009 the group issued £850,000 of convertible unsecured loan stock to a group of investors including key members of the board and the senior management team. The stock is convertible into ordinary shares at a conversion price of £0.10 between 1 October 2010 and 30 September 2011, or earlier if the company undertakes an equity issue. Any portion of the stock which is not converted will be redeemed at par on 30 September 2011. The stock carries an annual coupon rate of 8 percent. At any time up to 31 March 2010, investors may subscribe for an additional one third of their initial stock value, with a conversion price set at a 30 percent premium to the conversion price applicable to their original holding. If at any time after the date of issue of the stock and before the date of conversion, the company undertakes a placing or other issue at a lower price then the conversion price for any outstanding stock will be adjusted to the placing price. All ordinary shares issued in relation to the stock are subject to lock-in arrangements. Fair value adjustments relating to the conversion features have resulted in the carrying value of the stock at 31 December 2009 being analyzed between host debt of £755,000 and an embedded financial derivative of £95,000.

Sopheon’s equity line of credit facility with GEM Global Yield Fund Limited ("GEM") was due to expire on 23 December 2009. During the year, GEM agreed to implement a further two year extension at no cost to Sopheon, through to 23 December 2011. The facility has been used to raise working capital once, in March 2004, leaving approximately 90 percent of the original $10m facility available under the extended agreement. Drawings under the GEM equity line of credit are subject to conditions relating *inter alia* to trading volumes in Sopheon shares.

PRODUCT AND MARKET OVERVIEW

Manufacturers throughout the world are emerging from a period of economic turmoil unlike any they have experienced in their history. At the center of this recovery is a new emphasis on evaluating product portfolios and urgently driving new product innovation.

As the economy gathers strength, companies are beginning to shift their strategic focus away from cost cutting toward organic growth, with product innovation as a key driver. The margin for error is thin, promoting an increased interest in managing risk. Executives are literally betting the future on their decisions about where to invest limited resources. The choices they make will determine whether their companies emerge successfully from the downturn or lose critical competitive ground.

Poor decisions on innovation investments can generally be traced to one of three factors:

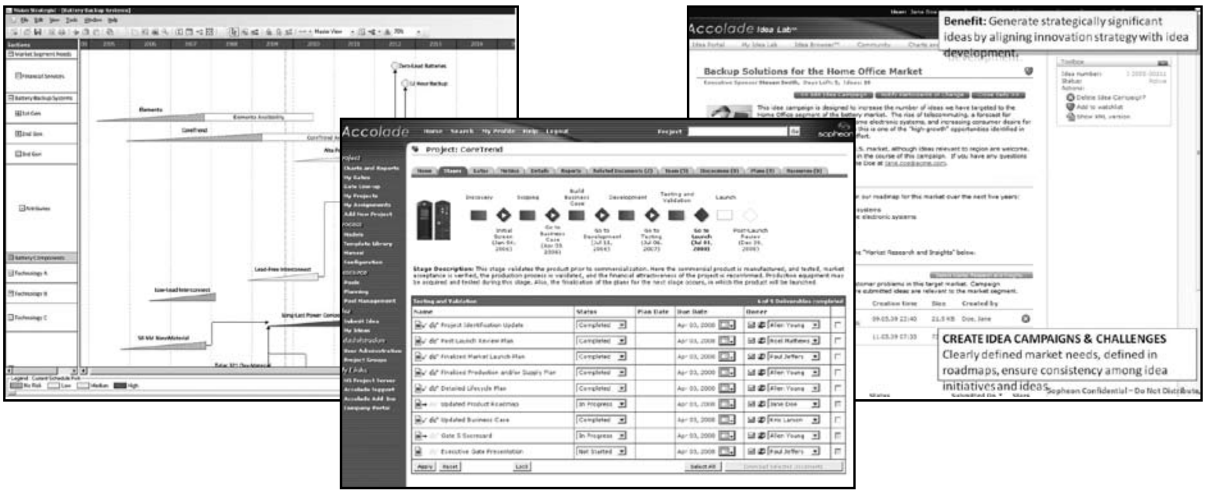
1) **Lack of transparency.** Decision-makers can't get a clear picture of where their innovation resources are being spent.

2) **Inability to judge what is valuable (and what is not).** Organizations often lack market-driven processes for determining the potential business value of investment options. As a result, spending decisions are based on little more than gut feel.

3) **Failure to anticipate consequences.** Decisions are sometimes made without a clear understanding of their probable impact on long-term strategies, or how they might be affected by shifts in market dynamics and other product and technology investments.

These factors typically lead to either of two negative outcomes. One is inaction, whereby low-value projects are allowed to linger and sap valuable resources while high-potential initiatives starve due to lack of support. The second outcome is even worse: truly valuable projects are unwittingly killed, resulting in loss of business opportunity and a glut of low-margin, "me-too" products that accelerate a spiral of declining financial performance.

Sopheon's solutions provide comprehensive support for the system of cross-functional decision-making processes that define, align and manage innovation activities. This capacity, referred to as innovation governance, helps ensure that company executives make the right decisions about where to spend their innovation resources and achieve profitable revenue growth from new products.



Sopheon's Accolade solution is the first software system in the industry to provide all-in-one enablement of strategic product roadmapping, ideation and innovation process execution.

Sopheon's Solutions

Sopheon's Accolade solution is the first software system in the industry to provide all-in-one enablement of strategic product roadmapping, ideation and innovation process execution. Accolade's Vision Strategist component automates the strategic roadmapping process, allowing users to visualize and forecast the future of products, markets and technologies. Accolade Idea Lab helps organizations generate, select and develop winning product and service ideas. Accolade Process Manager™ automates the product innovation process and provides strategic decision support for the management of product portfolios.

Sopheon's software helps to demystify research and development by providing dynamic, real-time visibility to planning and project information and aligning innovation efforts across the organization. It allows executives and cross-functional teams to more effectively assess the business opportunities and risks associated with product innovation initiatives, the short-term cost implications of such initiatives, and their likely impact on long-term strategies and objectives for revenue and profit growth.

Through their use of Sopheon's software, organizations are able to:

1) **Improve strategic agility and "uncertainty planning".**
Our solutions support agility in strategic planning by rapidly moving decision-relevant information both vertically and horizontally inside the organization. The easy flow of data permits senior executives to know, and react quickly, when project details change or external events suddenly demand adjustments or refinements to active strategies.

2) **Make faster, better-informed portfolio decisions.**
Strong portfolio management helps organizations optimize limited resources. Sopheon's software makes it possible for users to see in real time where innovation resources are invested. The solutions' dashboards consolidate, aggregate and present metrics so that information can be monitored at a glance. Innovation plans and projects can be stored in one place so that access is quick and easy.

3) **Identify, prioritize and act on the most promising innovation opportunities.**
Users of Sopheon's software are able to separate winning products from losers early in the development cycle, helping to keep investments concentrated on high-value opportunities. Unique knowledge management capabilities and "smart" technology enable brainstorming and discovery, contributing to a steady flow of innovative ideas. Features such as scorecards, tailored idea-selection criteria, resource reports and information-gathering and presentation templates grounded in best practices strengthen process governance and minimize innovation risk.

4) **Keep daily operational activities aligned with organizational strategies for growth.**
An estimated 65 percent of companies struggle to keep product portfolios and operational and project activity aligned with corporate strategic plans. Sopheon's solutions create a seamless, automated process and decision framework that continually reconciles strategic product planning and operational execution.

5) **Cut costs by improving innovation process and team efficiencies.**
According to Gartner research, companies whose product lifecycle management priorities include deployment of technology applications such as Sopheon's software can reduce product development costs by 30 percent or more. The savings happen because users are able to identify and abandon low-value or non-strategic projects early, before valuable resources are spent on development.

The Market

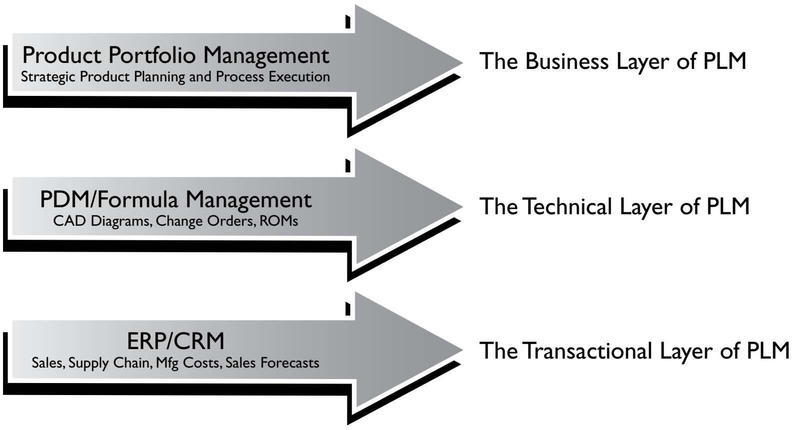
Sopheon's solutions belong to a major class of software applications that concentrate on supporting product lifecycle management (PLM). The purpose of this applications group is to help companies develop and execute their product strategies.

"FORRESTER HAS BEEN SEEING A SIGNIFICANT INCREASE IN INTEREST AND INVESTMENT IN PROJECT PORTFOLIO MANAGEMENT TOOLS FOR PRODUCT DEVELOPMENT TO HELP ADDRESS TWO PERSISTENT INFORMATION CHALLENGES: 1) OBTAINING AN ACCURATE PICTURE OF RESOURCE UTILIZATION, AND 2) ALIGNING INVESTMENT WITH THE BUSINESS STRATEGY."

– Forrester Research, Inc.

"It's Time to Revisit PPM for Product Development"
December 2009

The PLM market is made of multiple submarkets. Some of these submarkets, such as product data management (PDM), are mature. Others are new and emerging. One of the emerging submarkets is called "Product Portfolio Management" (PPM). It is the area where Sopheon is focused. Software solutions in most areas of product lifecycle management concentrate on the engineering or technical challenges involved in managing a product while it is under development. Sopheon's solutions are designed to instead address the business challenges associated with product innovation, including the management of innovation risk and reward.



Business analysts have placed Sopheon's Accolade system in a subclass of product lifecycle management applications referred to as product portfolio management solutions.

Analysts have labeled Accolade as best-of-breed among solutions in the product portfolio management sub-class. They view PPM as a strategically critical applications area. Their research findings indicate that adoption of PPM methodologies enables users to more objectively assess product innovation investment options and increase the number of products that achieve commercial success. A number of prominent analyst firms have recently reported growing end-user interest in product portfolio management software. In December 2009, Forrester noted increasing levels of investment in project portfolio management tools for product development and identified Sopheon as one of the clear market share leaders in the space. IDC forecasts that the PPM market will grow at a compound annual rate in excess of 8 percent through the year 2012.

Growth Strategy

The wide-ranging impact of the economic climate in 2009 caused many companies to adjust operational priorities and reexamine near-term growth strategies. Sopheon was no different. As the acquisition of new customers slowed, we placed a mix of corporate initiatives on hold and moved thoughtfully but aggressively to reduce operational costs. While cutting in some areas, we prudently increased our spending in others. For instance, a decrease in conference exhibit activity was offset by stepped up investment in new, more cost-effective marketing channels such as social media. Continued funding of product development reflected our commitment to making sure that we were well positioned to capture additional market share as the economy turned around. We were also unwavering in our focus on serving our client base.

Client Base

As the size of our customer population continues to expand, so too do Sopheon's opportunities for growth. In 2009, 35 existing accounts extended their licenses for our software. That compares to 27 in 2008. Eighty-five percent of Sopheon's revenues during the past year came from the installed base, as current customers looked to take further advantage of Accolade's value in one of three scenarios.

1) *Enterprise Expansion of Accolade Use.* A number of customers extended their initial deployments of our software, adding licenses to enable product innovation in more business units or other areas of the enterprise.

2) *Support for Advanced Levels of Innovation Governance.* Some current Accolade users aspiring to raise the maturity of their innovation-governance efforts invested in additional, more advanced software modules and engaged Sopheon to provide guidance services.

3) *Use of Accolade for Processes Other Than Product Innovation.* A growing number of customers are expanding the use of Accolade beyond product innovation to include the management of cost reduction and quality assurance programs and the management of corporate plans and initiatives. Another emerging application is sustainability management, an aspect of innovation rigor that focuses on the creation and production of more environmentally friendly products. Our commitment to this area is further reflected in a newly announced alliance involving Sopheon, Cytec Industries, a global specialty chemicals and materials manufacturer, and Beyond Benign, a highly regarded nonprofit foundation that promotes sustainable science. The alliance has recently introduced a Web-based tool that measures the sustainability of new products while they are still concepts, before users incur the high costs of development. An industry first, the iSUSTAIN™ Green Chemistry Index easily integrates with the phase- and gate-based innovation processes empowered by Sopheon's software.

In September, Sopheon convened a session of its global Product Advisory Council (PAC). The organization comprises representatives of current customers, including such industry-leading companies as Electrolux, MARS and Parker Hannifin. We were pleased with the candor of feedback from the group regarding our product direction. Several initiatives scheduled for 2010 were reprioritized based on PAC input. The group unanimously embraced new technologies released to the market earlier this year (see Product Development section below).

Product Development

Sopheon continued to invest substantially during 2009 in expanding the capabilities of our software products. Early in the year, we created a Product Extension (PEX) team. Its charter was to provide an immediate response to market demand for a variety of new product features. The team was organized around rapid-development methodologies that would accelerate time to market. By the end of 2009, the PEX organization had created six new capabilities ranging from user-interface enhancements to major advances in product functionality. All have now been incorporated into our standard offerings.

We also delivered two major product releases in 2009. Sopheon's Idea Lab idea development software was released to the market in May. A new version of our Vision Strategist strategic roadmapping software was introduced in early December.

Core Markets

Sopheon's marketing and business development efforts in 2009 continued to focus primarily on manufacturers of chemicals, paper and, within the consumer packaged goods sector, food and beverage producers. Nearly half of our customer base is comprised of companies from these markets, a circumstance that has accelerated our development of industry-specific domain expertise. The resulting best-practice knowledge and proprietary tools and techniques are oftentimes a decisive advantage as we compete for additional business in these verticals.

"Innovation is the engine that drives sustainable, profitable growth. We stepped up our investment in product innovation with the objectives of growing faster and strengthening our competitive position through increased differentiation. With Sopheon's solution, we have end-to-end visibility and management across our product ideation, selection, development and commercialization processes. The software gives us the consistent data we need for sound product decisions. We view Accolade as a critical enabler of our efforts to ensure that we invest our resources in the right product opportunities, and bring those products to market at the right time."

— Bruno Charrière, Corporate Innovation Director
Bostik

New Markets

In 2009, Sopheon continued its expansion beyond its core markets into the automotive, aerospace and defense (A&D) sectors. Paralleling the fortunes of the industry, our automotive business was stagnant. However, our pipeline of sales opportunities within A&D grew steadily and is producing results. For instance, Sopheon was recently among the winners of a US Army Tank Automotive Research Development and Engineering Center contract. Thirty supplier and resource organizations are participating in the initiative, which has a potential value to the consortium of up to $430 million. Meanwhile we continue to learn from our already substantial base of new-market customers, including such organizations as BAE Systems, EG&G, Honeywell, Lockheed Martin, Northrop Grumman, Textron and the US Navy and Air Force. We expect that aerospace and defense markets will further contribute to our growth during 2010.

Partnerships

Reseller Partners

As we have indicated, a core element of our strategy for growing through partnerships is to distribute our solutions through third-party resellers. We previously reported having established affiliate or reseller relationships with organizations in Germany, Australia, New Zealand, Portugal, France and the United Kingdom. During 2009, resellers generated 9 percent of Sopheon's total revenues, down from 11 percent in 2008. This shift was indicative of a difficult year when we focused primarily on supporting our resellers through unusually challenging economic turbulence. We introduced them to a number of new tools and a broad range of new product capabilities. Overall, we were very pleased by the strength of their continued commitment. In February of this year, every member of our reseller network joined us for our global sales conference, where they participated in deep-dive training on our new technologies and services. Supporting the growth and success of our reseller affiliates will remain a primary focus for our company in the year ahead.

Consulting Partners

In 2009 we continued our relationships with a core group of consulting services organizations, including Hewlett-Packard, Arthur D. Little, Deloitte, Kalypso and Stage-Gate® International. We also recently extended our association with Microsoft® as a Gold-Certified partner.

The past year was marked by an increased interest from large consulting firms exploring Sopheon's interest in partnership opportunities. As the depressed economy eroded demand for enterprise resource planning (ERP) deployments, the consulting organizations whose services are designed to support such large-scale implementations saw business decline. Many reacted by seeking out new business applications, including support for innovation governance. Sopheon's position as a market leader, along with our strong reputation for domain expertise, attracted solicitations from a number of firms. In response, we have created new content and implementation frameworks for our consulting services aimed at enhancing the value of our software to our customers. We view these frameworks, which will be delivered by certified consultants, as the leading edge of a new wave of advancements that will enable our services organization to scale with speed.

Stage-Gate® is a registered trademark of the Product Development Institute, Inc.
Microsoft® is a registered trademark of Microsoft Corporation.

DIRECTORS AND ADVISORS

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
	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	BDO LLP 55 Baker Street London W1U 7EU	
Principal Bankers and Financiers	Silicon Valley Bank 3003 Tasman Drive Santa Clara, CA 95054 United States	Lloyds TSB Bank plc. 77 High Street Southend-on-Sea Essex SS1 1HT
	BlueCrest Capital Finance, LLC 225 West Washington, Suite 200 Chicago, IL 60606 United States	
Solicitors and Attorneys	Hammonds 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2200 IDS Center, 80 South Eighth Street Minneapolis, MN 55402 United States
	Loyens & Loeff Fred Roeskestraat 100 1076 ED Amsterdam The Netherlands	
AIM Nominated Adviser and Broker	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN	
Euronext Paying Agent	Kempen & Co. Beethovenstraat 300 1077 WZ Amsterdam The Netherlands	
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA	

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 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

The service contract between the company and Mr Michuda is terminable on up to three months' notice, with 12 months' salary in lieu of notice due by the company in the event of termination without cause. Service contracts between the company and the other executive directors are terminable on six 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, translated where applicable into Sterling at the average rate for the period. Mr Mence's remuneration is largely fee-based and therefore subject to fluctuations from period to period. Mr Michuda's remuneration is payable in US Dollars, the average exchange rate for which has increased significantly compared with the previous year. Details of directors' interests in shares and options are set out in the Directors' Report.

	Pay and fees 2009 £	*Benefits 2009 £*	*Total 2009 £*	*Total 2008 £*
Executive Directors				
B.K. Mence	133,126	2,351	135,477	157,373
A.L. Michuda	153,915	10,503	164,418	162,841
A. Karimjee	103,500	2,009	105,509	118,762
Non-executive Directors				
S.A. Silcock	18,000	-	18,000	18,000
B.P.F. Al	18,000	-	18,000	18,000
D. Metzger	18,000	-	18,000	18,000
	444,541	14,863	459,404	492,976

The remuneration committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. With the principal exception of members of Sopheon's sales teams, for whom incentives are tied to individual or territory results, the committee concluded that the cash incentive should be tied to the financial performance of the group as a whole, and in 2009 objectives were set with regard to EBITDA performance. These measures were applied to all members of the executive board and management committee of the group, as well as the majority of the group's employees. No bonus was payable under this scheme in respect of 2009.

In addition to the amounts disclosed above, pension contributions are made to individual directors' personal pension schemes. During 2009 contributions of £4,875, £3,823 and £4,800 (2008 - £4,875, £2,844 and £4,248) were paid respectively to the pension schemes of B.K. Mence, A.L. Michuda and A. Karimjee.

The emoluments of S.A. Silcock are paid to Lawford & Co, a firm of chartered accountants of which S.A. Silcock is a partner.

DIRECTORS' REPORT

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. A review of the development of the business during the year is given in the Statement from the Chairman and Chief Executive Officer on page 6 and the subsequent Financial Review. This also includes reference to the group's future prospects. An overview of the group's products and markets incorporating advances in research and development is provided on page 11. The group's result for the year ended 31 December 2009 is a loss after tax of £1,494,000 (2008: profit of £29,000). The directors do not intend to declare a dividend.

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 UK Combined Code or the Netherlands Tabaksblat Committee. The board currently comprises three executive directors and three independent non-executive directors. Their biographies appear on the inside back cover of this annual report, and demonstrate a range of experience and caliber to bring the right level of independent judgment to the board.

The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The board believes that the group has internal control systems in place appropriate to the size and nature of its business. The board is also 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 those dates convened as necessary. The audit committee, which comprises all of 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 in the Report on Directors' Remuneration on page 17.

Principal Risk Areas

As with any business at its stage of development, Sopheon faces a number of risks and uncertainties. The board monitors these risks on a regular basis. The key areas of risk identified by the board are summarized below.

Sopheon's markets continue to be at a relatively early stage of development and it is possible that Sopheon's products may not sell in the quantities or at the prices required to achieve sustained profitability. The broad market for Sopheon's software products continues to emerge and evolve. Sopheon has sought to focus its resources on the sub-segments that it believes offer the best short-term opportunity for growth, and on developing functionality which its research indicates customers in those segments require. However, determining the potential size, growth rate and needs of a particular market segment remains challenging. This risk has become particularly relevant in view of the economic turmoil that has affected the global economy.

Sopheon has a history of losses and its prospects of achieving profitability are dependent on meeting sales targets. Sopheon has in past years experienced substantial net losses due, in part, to its investment in product development and marketing. Sopheon's ability to continue to finance its activities through to the point that its operations become cash generative on a sustained basis is dependent on the group maintaining sales growth, or in the absence of such growth, its ability to secure funding through the company's facilities or other sources. Details of the resources available to Sopheon and the reasons why management consider that the company is able to continue as a going concern are set out in Note 2 to the financial statements.

Some of Sopheon's competitors and potential competitors have greater financial resources than Sopheon. Sopheon remains a relatively small organization by global standards. Its resources are dwarfed by those of many larger companies that are capable of developing competitive solutions and it is difficult to overcome the marketing engine of a large global firm. Sopheon seeks to compete effectively with such companies by keeping its market communications focused, clear and consistent with its product and market strategy, and working to deliver first class quality of execution so that referenceability of the customer base is maximized.

Sopheon is dependent upon skilled personnel, the loss of whom could have a material impact. While service agreements have been entered into with key executives, retention of key members of staff cannot be guaranteed and departure of such employees could be damaging in the short term. In addition the competition for qualified employees continues to be difficult and retaining key employees has become accordingly more challenging and expensive. As a relatively small business, Sopheon is more exposed to this risk than some of its larger competitors.

Sopheon will require relationships with partners who are able to market and implement its products. Historically, Sopheon has devoted substantial resources to the direct marketing of its products, and its strategy to enter into strategic alliances and other collaborative relationships to widen the customer base and create a broad sales and implementation channel for its products is not yet mature. The successful implementation of this strategy is crucial to Sopheon's prospects and its ability to scale effectively. However, Sopheon cannot be sure that it will select the right partners, or that the partners it does select will devote adequate resources to promoting, selling and becoming familiar with Sopheon's products.

Sopheon could be subject to claims for damages for errors in its products and services. Sopheon may be exposed to claims for damages from customers in the event that there are errors in its software products or should support and maintenance service level agreements fail to meet agreed criteria. Sopheon has sought to protect itself from such risks through its development methodologies, its contract terms and insurance, and is not aware of any such claims at this time.

Share Option Schemes

Details of options granted are shown in Note 28 to the financial statements.

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 2009 the company had approximately 50 days' purchases outstanding (2008: 49 days).

Charitable and Political Donations

The group has made no charitable or political donations during the year.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to ensure that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware. A resolution to reappoint BDO LLP as auditors will be put to the members at the Annual General Meeting.

Financial Instruments

Details of the group's financial instruments and its policies with regard to financial risk management are given in Note 23 to the financial statements.

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*		*8% Convertible Loan Stock 2011*	
At 31 December	2009	2008	2009	2008	2009	2008
B.K. Mence	485,000	485,000	14,423,847	14,423,847	£200,000	-
A.L. Michuda	3,768,904	3,789,251	155,188	155,188	£20,000	-
A. Karimjee	1,000,000	1,100,000	87,667	87,667	£12,000	-
S.A. Silcock	-	-	950,000	950,000	£100,000	-
S.A. Silcock*	-	-	76,639	76,639	-	-
B.P.F. Al	25,000	25,000	650,000	650,000	£40,000	-
D. Metzger	-	-	100,000	100,000	-	-

Of the 14,423,847 ordinary shares mentioned above B.K. Mence beneficially owns and is the registered holder of 10,123,027 ordinary shares. A further 2,300,820 ordinary shares are held by Inkberrow Limited, a company in which B.K. Mence and his family trust are the majority shareholders and in which S.A. Silcock is a minority shareholder. In addition B.K. Mence is, or his wife or children are, potential beneficiaries under trusts holding an aggregate of 2,000,000 ordinary shares.

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

	Date of grant	*Exercise price*	*At 31 December 2008*	*Granted during year*	*Lapsed during year*	*At 31 December 2009*
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
B.K. Mence (7)	15 April 2005	25.25p	62,500	-	-	62,500
B.K. Mence (8)	3 May 2006	22p	100,000	-	-	100,000
B.K. Mence (9)	29 June 2007	19p	100,000	-	-	100,000
B.K. Mence (10)	1 April 2008	13.25p	100,000	-	-	100,000
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 (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 (4)	30 April 2002	14.75p	487,932	-	-	487,932
A.L. Michuda (4)(5)	5 November 2003	16.25p	2,225,000	-	-	2,225,000
A.L. Michuda (6)	15 April 2005	25.25p	150,000	-	-	150,000
A.L. Michuda (8)	3 May 2006	22p	100,000	-	-	100,000
A.L. Michuda (9)	29 June 2007	19p	250,000	-	-	250,000
A.L. Michuda (10)	1 April 2008	13.25p	250,000	-	-	250,000
A.L. Michuda (6)	27 June 2008	14p	230,000	-	-	230,000
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 (5)(7)	5 November 2003	16.25p	300,000	-	-	300,000
A. Karimjee (6)	15 April 2005	25.25p	62,500	-	-	62,500
A. Karimjee (8)	3 May 2006	22p	100,000	-	-	100,000
A. Karimjee (9)	29 June 2007	19p	100,000	-	-	100,000
A. Karimjee (10)	1 April 2008	13.25p	175,000	-	-	175,000
A. Karimjee (6)	27 June 2008	14p	100,000	-	-	100,000
B.P.F. Al (1)	2 May 2001	77.5p	25,000	-	-	25,000

None of the directors exercised any share options during the year.

(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) One third of these options are exercisable from the date of grant, one third from the first anniversary of the date of grant and one third from the second anniversary.
(5) Vesting of a proportion of these options was subject to performance conditions relating to the achievement of positive EBITDA in two successive quarters. The conditions were met.
(6) One third of these options are exercisable from the first anniversary of the date of grant, one third from the second anniversary, and the remainder from the third anniversary.
(7) 93,846 of these options are exercisable between the third and tenth anniversary of the date of grant and 206,154 options are exercisable as to one third immediately and one third on each of the first and second anniversaries of the date of grant.
(8) Vesting of one half of these options was subject to performance conditions based on the achievement of certain financial objectives in 2006. The conditions were met.
(9) Vesting of one half of these options was subject to performance conditions based on the achievement of certain financial objectives in 2007. The conditions were met.
(10) Vesting of one half of these options was subject to performance conditions based on the achievement of certain financial objectives in 2008. The conditions were met.

The mid-market price of Sopheon ordinary shares at 31 December 2009 was 7p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 14.5p to 6.25p.

Save as disclosed above, no director (or member of his family) or connected persons 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 24 March 2010 were interested directly or indirectly in three percent or more of the company's issued ordinary shares:

Name	*No. of Ordinary Shares*	*Percent Issued Ordinary Shares*
B.K. Mence (director)	14,423,847	9.9
Norman Nominees Limited	9,691,260	6.7

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

Approved by the board on 24 March 2010 and signed on its behalf by:

A. Karimjee
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. 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.

Website Publication

The directors are responsible for ensuring the annual report is made available on a website. Annual reports are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the annual reports contained therein.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOPHEON PLC

We have audited the financial statements of Sopheon plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated statement of comprehensive income, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the group's ability to continue as a going concern. As in prior years, these disclosures identify certain factors that indicate the existence of material uncertainties which may cast significant doubt about the group's ability to continue as a going concern. As discussed in Note 2, the appropriateness of the going concern basis remains reliant on the group achieving an adequate level of sales in order to maintain sufficient working capital to support its activities, or if this objective is not met, being able to raise sufficient additional finance. The financial statements do not include the adjustments that would result if the group were unable to continue as a going concern.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which We are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Iain Henderson (Senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London W1U 7EU
United Kingdom

24 March 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
Revenue	3	8,260	9,304
Cost of sales		(2,384)	(2,304)
Gross profit		5,876	7,000
Sales and marketing expense		(3,379)	(3,516)
Research and development expense		(2,210)	(1,995)
Administrative expense		(1,560)	(1,289)
Operating (loss)/profit		(1,273)	200
Finance income	8	19	55
Finance expense	9	(240)	(211)
(Loss)/profit before tax		(1,494)	44
Income tax expense	10	-	(15)
(Loss)/profit for the year		(1,494)	29
(Loss)/earnings per share			
Basic and diluted (pence)	12	(1.03p)	0.02p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £'000	2008 £'000
(Loss)/profit for the year	(1,494)	29
Other comprehensive income		
Exchange differences on translation of foreign operations	(206)	778
Total comprehensive income for the year	(1,700)	807

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2009

	Notes	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Assets					
Non-current Assets					
Property, plant and equipment	13	151	235	-	-
Intangible assets	14	3,993	4,706	-	-
Investments in subsidiaries	15	-	-	6,119	6,119
Other receivable	16	12	12	-	-
Total non-current assets		4,156	4,953	6,119	6,119
Current Assets					
Trade and other receivables	17	2,905	3,568	33	28
Cash and cash equivalents	18	1,624	2,586	1,018	1,421
Total current assets		4,529	6,154	1,051	1,449
Total assets		8,685	11,107	7,170	7,568
Liabilities					
Current Liabilities					
Trade and other payables	19	1,187	2,003	347	473
Borrowings	20	1,340	1,080	-	-
Obligations under finance leases	21	1	3	-	-
Deferred revenue		2,250	2,648	-	-
Total current liabilities		4,778	5,734	347	473
Non-current Liabilities					
Borrowings	20	1,222	1,103	850	-
Obligations under finance leases	21	-	2	-	-
Total non-current liabilities		1,222	1,105	850	-
Total liabilities		6,000	6,839	1,197	473
Net assets		2,685	4,268	5,973	7,095
Equity					
Share capital	24	7,279	7,279	7,279	7,279
Capital reserves	25	73,633	73,627	65,868	65,862
Translation reserve		381	587	-	-
Retained losses		(78,608)	(77,225)	(67,174)	(66,046)
Total equity		2,685	4,268	5,973	7,095

Approved by the board and authorized for issue on 24 March 2010.

Barry K. Mence
Director

Arif Karimjee
Director

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Group 2009 £'000	Group 2008 £'000	Company 2009 £'000	Company 2008 £'000
Operating activities					
(Loss)/profit for the year		(1,494)	29	(1,239)	(163)
Adjustments for:					
Finance income		(19)	(55)	(7)	(49)
Finance costs		240	211	8	2
Depreciation of property, plant and equipment		109	96	-	-
Amortization and impairment of intangible assets		1,149	1,148	-	-
Share-based payment expense		117	151	117	151
Intra-group credits and charges		-	-	(220)	(235)
Provisions against intra-group loans		-	-	925	14
Operating cash flows before movements in working capital		102	1,580	(416)	(280)
Decrease/(increase) in receivables		307	(506)	(5)	11
(Decrease)/increase in payables		(711)	649	(126)	47
Net cash (used in)/generated from operating activities		(302)	1,723	(547)	(222)
Investing activities					
Finance income		19	55	7	49
Purchases of property, plant and equipment		(48)	(85)	-	-
Development costs capitalized		(945)	(797)	-	-
Intra-group loans		-	-	(1,699)	(2,141)
Repayment of intra-group loans		-	-	1,005	2,331
Net cash (used in)/generated from investing activities		(974)	(827)	(687)	239
Financing activities					
Proceeds from borrowings		850	-	850	-
Repayment of borrowings		(545)	(469)	-	-
Increase in lines of credit		301	-	-	-
Interest paid		(240)	(211)	(19)	(2)
Net cash from financing activities		366	(680)	831	(2)
Net (decrease)/ increase in cash and cash equivalents		(910)	216	(403)	15
Cash and cash equivalents at the beginning of the year		2,586	2,053	1,421	1,391
Effect of foreign exchange rate changes		(52)	317	-	15
Cash and cash equivalents at the end of the year	18	1,624	2,586	1,018	1,421

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

Group

	Share capital £'000	*Capital reserves £'000*	*Translation reserve £'000*	*Retained losses £'000*	*Total £'000*
At 1 January 2008	7,279	73,499	(191)	(77,277)	3,310
Profit for the year	-	-	-	29	29
Exchange differences on translation of foreign operations	-	-	778	-	778
Total comprehensive income for the year	-	-	778	29	807
Recognition of share-based payments	-	151	-	-	151
Lapsing of share options	-	(23)	-	23	-
At 1 January 2009	7,279	73,627	587	(77,225)	4,268
Loss for the year	-	-	-	(1,494)	(1,494)
Exchange differences on translation of foreign operations	-	-	(206)	-	(206)
Total comprehensive income for the year	-	-	(206)	(1,494)	(1,700)
Recognition of share-based payments	-	117	-	-	117
Lapsing and expiry of share options	-	(111)	-	111	-
At 31 December 2009	7,279	73,633	381	(78,608)	2,685

The translation reserve represents accumulated differences on the translation of assets and liabilities of foreign operations. Retained losses represent accumulated trading losses, including amortization and impairment charges in respect of goodwill and intangible assets arising from past acquisitions. Details and description of the capital reserves are set out in Note 25.

Company

	Share capital £'000	*Capital reserves £'000*	*Retained losses £'000*	*Total £'000*
At 1 January 2008	7,279	65,734	(65,906)	7,107
Loss and total comprehensive income for the year	-	-	(163)	(163)
Recognition of share-based payments	-	151	-	151
Lapsing of share options	-	(23)	23	-
At 1 January 2009	7,279	65,862	(66,046)	7,095
Loss and total comprehensive income for the year	-	-	(1,239)	(1,239)
Recognition of share-based payments	-	117	-	117
Lapsing and expiry of share options	-	(111)	111	-
At 31 December 2009	7,279	65,868	(67,174)	5,973

1. GENERAL INFORMATION

Sopheon plc ("the company") is a public limited company incorporated in England and Wales. The address of its registered office and principal place of business is set out on page 16. The principal activities of the company and its subsidiaries are described in Note 3. The financial statements have been prepared in Pounds Sterling and rounded to the nearest thousand.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board as adopted by the European Union and those parts of the Companies Act 2006 which apply to companies preparing their financial statements under IFRS. The principal accounting policies are set out below. The policies have been applied consistently to all the years presented.

The group has adopted the following new standards, which have had an impact on the financial statements:

- *Amendments to IAS 1: Presentation of Financial Statements: A Revised Presentation.*
  As a result of the application of this amendment the group has elected to present an income statement and a statement of comprehensive income. In addition, a statement of changes in equity is now presented as a primary statement where previously the information was included in a note. The Amendment does not change the recognition or measurement of transactions and balances in the financial statements.

- *Adoption of IFRS 8: Operating Segments.*
  The group has adopted IFRS 8 as a mandatory requirement that requires the group to adopt a 'management approach' in the identification of its operating segments and its reporting on their financial performance in the consolidated financial statements. The group now presents segmented information in respect of two geographical areas, North America and Europe, Middle East and Africa (EMEA). Previously segmented information was presented in respect of three geographical areas, North America, United Kingdom and Europe.

Other new standards, amendments and interpretations to existing standards, which have been adopted by the group, have not been listed, since they have no material impact on the financial statements.

The following new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 2 January 2009 and which the group has decided not to adopt early.

- *Revised IFRS 3 Business Combinations Agreements* (effective for accounting periods beginning on or after 1 July 2009). This revised statement makes certain changes to the accounting for acquisitions, including a requirement to write off acquisition costs to income statement instead of including them in the costs of acquisition, but does not require past acquisitions to be restated. This revised standard has been endorsed by the EU.

- *Amendment to IAS 27 Consolidated and Separate Financial Statements* (effective for periods beginning on or after 1 July 2009). This amendment has been endorsed by the EU. This amendment requires prospective application and could result in a change where acquisitions or disposals of subsidiaries are made in stages. This could be applicable if the company made piecemeal acquisitions or disposals in the future, which is not anticipated.

- *Improvements to IFRSs* (generally effective for accounting periods beginning on or after 1 January 2010). These improvements have been endorsed by the EU. These improvements will result in clarification of the requirements of IFRSs and elimination of inconsistencies between Standards. Management is still assessing the impact of these improvements.

- *Revised IAS 24 Related Party Disclosures (Revision to IAS 24)* (Effective for periods beginning on or after 1 January 2011). This revision is yet to be endorsed by the EU. The revision concerns the previous disclosure and the definition of a related party. Management is still assessing the impact of this revision.

- *IFRS 9 Financial Instruments (Replacement of IAS 39)* (Effective for periods beginning on or after 1 January 2013). This revision is yet to be endorsed by the EU. This standard will eventually replace IAS 39 in its entirety. Management is still assessing the impact of this revision.

None of the other new standards, amendments or interpretations in issue is expected to have a material effect on the group or company financial statements.

Going Concern

The financial statements have been prepared on a going concern basis. In reaching their assessment, the directors have considered a period extending at least 12 months from the date of approval of these financial statements and have considered both the forecast performance for the next 12 months and the cash and financing facilities available to the group.

During 2009, the group achieved revenues of £8.3m and incurred a loss of £1.5m. This represents a weaker performance than for the previous year, which the directors believe was caused primarily by delays in closing new sales, due to the ongoing weakness in global economic conditions. The group's sales pipeline remains very active, and accordingly, the directors remain positive about the prospects for the business. However, the time-to-close and the order value of individual sales can vary considerably, factors which constrain the ability to accurately predict short-term revenue performance. The weakness in global economic conditions is also likely to result in customers taking longer to pay amounts owed to the group.

The group has a loan note from BlueCrest Capital Finance ("BlueCrest") which is repayable in equal monthly installments of $91,000 through July 2011. The balance remaining due on the note at 31 December 2009 was $1.6m. The group also has access to a revolving line of credit with BlueCrest which is secured against the trade receivables of Sopheon's North American business. This was renewed for an additional 12 month period through 30 June 2010, and as part of this renewal, the facility limit was increased from $750,000 to $1,250,000. At 31 December 2009, $1,220,000 (£756,000) was drawn against this revolving facility. In addition, during the year the group secured a convertible loan for £850,000, repayable or convertible by 30 September 2011. At 31 December 2009, the group reported net assets of £2.7m and gross cash resources of £1.6m.

In addition to funding activities, during 2009 the directors implemented several actions to reduce costs, leading to a lower cost base in 2010. However, if sales fall short of expectations, or if the group's existing facilities prove insufficient, the group may need to raise additional finance. The group continues to have access to the debt and equity markets, and the directors have demonstrated the ability to raise funds during the previous year. In addition, the group has access to an equity line of credit facility from GEM Global Yield Fund Limited ("GEM") for an aggregate of €10m, the current term of which expires in December 2011. GEM's obligation to subscribe for shares is subject to certain conditions linked to the prevailing trading volumes and prices of Sopheon shares on the Euronext stock exchange. To date Sopheon has made one call on the equity line of credit facility in March 2004, leaving a maximum €9m potentially available.

The directors have concluded that the circumstances set forth above represent material uncertainties, however they believe that taken as a whole, the factors described above enable the group to continue as a going concern for the foreseeable future. The financial information does not include the adjustments that would be required if the company or group were unable to continue as a going concern.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company ("subsidiaries"). Control is achieved where the company has the power to govern the financial and operating policies of an entity and to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business Combinations

The acquisition of subsidiaries is accounted for within the consolidated financial statements using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the entity being acquired, together with any costs directly attributable to the business combination. The results of the acquired entities are included in the consolidated income statement from the date on which effective control is obtained. The identifiable assets, liabilities and contingent liabilities of the entity being acquired that meet the conditions for recognition are recognized at their fair values of the date of acquisition.

Identifiable intangible assets are capitalized at fair value as at the date of acquisition. The useful lives of these intangible assets are assessed and amortization is charged on a straight-line basis, with the expense taken to the income statement. Intangible assets are tested for impairment when a trigger event occurs. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. If, after reassessment, the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity being acquired exceeds the cost of the business combination, the excess is recognized immediately in the income statement. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to those cash-generating units of the group expected to benefit from the synergies of the business combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying value of the unit, the impairment loss is allocated firstly to reduce the carrying cost of any goodwill allocated to the unit and then to any other assets of the unit *pro rata* to the carrying value of each asset of the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of software products are recognized on delivery, and when no significant vendor obligations remain. Revenues relating to maintenance and post contract support agreements are deferred and recognized over the period of the agreements.

Revenues from implementation and consultancy services are recognized as the services are performed, or in the case of fixed price or milestone-based projects, 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.

Leases

Assets held under finance leases are recognized as assets of the group at their fair value at the inception of the lease or, if lower, at the net present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Interest on Borrowings

All interest on borrowings is recognized in the income statement in the period in which it is incurred.

Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. The group does not operate any defined benefit retirement benefit plans.

Foreign Currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Sterling, which is the functional currency of the parent company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at rates approximating to the transaction rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are expressed in Sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period. Exchange differences arising (including exchange differences on intra-group loans) are classified as equity and transferred to the group's translation reserve. Such translation differences are recognized in the income statement in the period in which the foreign operation is disposed of.

On disposal of a foreign operation the cumulative exchange differences recognized in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, but deferred tax assets are recognized only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at tax rates that have been enacted or substantively enacted at the balance sheet date, and that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, Plant and Equipment

Computer equipment and fixtures and fittings are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, when shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the income statement.

Investments

Investments in subsidiaries within the company balance sheet are stated at cost less impairment. Impairment tests are undertaken whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an investment exceeds its recoverable amount, the investment is written down accordingly.

Externally Acquired Intangible Assets

Externally acquired intangible assets are initially recognized at their fair values at the date of acquisition and are subsequently amortized on a straight-line basis over their useful economic lives. The amortization expense in respect of externally acquired technology and intellectual property ("IPR") is included in research and development costs in the income statement, and the amortization expense in respect of externally acquired customer relationships is included in sales and marketing expense.

Internally Generated Intangible Assets (Research and Development Expenditure)

Development expenditure on internally developed software products is capitalized if it can be demonstrated that:
- it is technically feasible to develop the product;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sales of the product will generate future economic benefits; and
- expenditure on the product can be measured reliably.

Capitalized development costs are amortized over the period over which the group expects to benefit from selling the product developed, typically over four years. The amortization expense in respect of internally generated intangible assets is included in research and development costs.

Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred.

Impairment of Tangible and Intangible Assets (Excluding Goodwill)

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the administrative expenses line item in the income statement.

Where an impairment loss subsequently reverses, the carrying value of the asset or cash-generating unit is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial Instruments

1. Financial Assets

The group's financial assets fall into the category of loans and receivables. The group does not have any financial assets in the categories of fair value through profit and loss or available for sale. The group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying values of the group's financial assets are a reasonable approximation of their fair values.

Loans and Receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services (e.g. trade receivables) but also include cash and cash equivalents and other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. The effect of discounting on these financial instruments is not considered material.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties, default or significant delay in payment on the part of the counter-party) that the group will be unable to collect all the amounts due under the terms of the receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognized within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. Financial Liabilities

The group classifies its financial liabilities in the category of financial liabilities at fair value through profit or loss and those measured at amortized cost.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss comprise the embedded derivative feature in the group's convertible loan stock.

The proceeds received on issue of convertible debt that converts at a variable price and consequently for a variable number of shares are allocated into liability and derivative components. The amount attributable to the liability component equals the discounted cash flows. The derivative component is also included within liabilities, but is measured at fair value in the balance sheet, with changes in the fair value of the derivative component recognized in the consolidated income statement.

Other than the derivative embedded in convertible debt, the group does not have any liabilities held for trading nor has it designated any other financial liabilities as being at fair value through profit or loss.

Financial Liabilities Measured at Amortized Cost

Financial liabilities measured at amortized cost include:

- Trade payables and other short-dated monetary liabilities, which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

- Bank and other borrowings (including the host debt element of the convertible loan noted above) which initially are recognized at fair value net of any transaction costs directly attributable to the acquisition of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that the interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.

Unless otherwise indicated, the carrying values of the group's financial liabilities measured at amortized cost represent a reasonable approximation of their fair values.

3. Share Capital

Financial instruments issued by the group are treated as equity only to the extent that they do not meet the definition of a financial liability. The group's ordinary shares are classified as equity. For the purpose of the disclosures given in Note 23(d) the group considers its capital to comprise its ordinary share capital, share premium and other capital reserves less its accumulated retained loss.

Share-based Payments

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by the binomial option-pricing model. The expected life used in the model had been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

As set out in Note 24, the group has also issued warrants to certain financing institutions which are also treated as equity-settled share-based payments.

Significant Accounting Estimates and Judgments

Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates, and accordingly they are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. SEGMENTAL ANALYSIS

All of the group's revenue in respect of the years ended 31 December 2009 and 2008 derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Directors' Report. For management purposes, the group is organized geographically across two principal operating segments, which can be expressed geographically. The first segment is North America, and the second Europe, Middle East and Africa ("EMEA"). Information relating to these two segments is given below.

The information in the following table relating to external revenues includes analysis both by location of customer and by location of operations. The information relating to other items provides analysis by location of operations only. Inter-segment revenues are priced on an arms length basis.

Year ended 31 December 2009	*North America £'000*	*EMEA £'000*	*Total £'000*
Income Statement			
External revenues – by location of customers	5,690	2,570	8,260
External revenues – by location of operations	6,222	2,038	8,260
Inter-segment revenues	472	465	937
Net (loss) before interest and tax	(413)	(860)	(1,273)
Finance income	-	19	19
Finance expense	(237)	(3)	(240)
Income tax expense	-	-	-
Depreciation and amortization	(1,072)	(6)	(1,078)
EBITDA	659	(854)	(195)
Balance Sheet			
Fixed asset additions	45	3	48
Total assets	6,938	1,747	8,685
Total liabilities	(4,035)	(1,965)	(6,000)

Year ended 31 December 2008	*North America £'000*	*EMEA £'000*	*Total £'000*
Income Statement			
External revenues – by location of customers	5,993	3,311	9,304
External revenues – by location of operations	6,777	2,527	9,304
Inter-segment revenues	667	680	1,347
Net profit/(loss) before interest and tax	472	(272)	200
Finance income	4	51	55
Finance expense	(206)	(5)	(211)
Income tax expense	(15)	-	(15)
Depreciation and amortization	(915)	(5)	(920)
EBITDA	1,387	(267)	1,120
Balance Sheet			
Capital expenditure	77	8	85
Total assets	8,976	2,131	11,107
Total liabilities	(5,504)	(1,335)	(6,839)

4. EBITDA AND REVENUE VISIBILITY

EBITDA

The directors consider that EBITDA, which is defined as (loss)/earnings before interest, tax, depreciation and amortization, is an important measure, since it is widely used by the investment community. It is calculated as follows:

	2009 *£'000*	*2008* *£'000*
(Loss)/profit for the year after tax	(1,494)	29
Income tax expense	-	15
Interest payable	240	211
Interest receivable	(19)	(55)
Amortization of intangible assets	969	824
Depreciation of property, plant and equipment	109	96
EBITDA	(195)	1,120

Revenue visibility

Another performance indicator used by the group and referred to in narrative descriptions of the group's performance is revenue visibility. At any point in time it comprises revenue expected from (i) closed license orders, including those which are contracted but conditional on acceptance decisions scheduled later in the year; (ii) contracted services business delivered or expected to be delivered in the year; and (iii) recurring maintenance, hosting and rental streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of the year.

5. (LOSS)/PROFIT FOR THE YEAR

The (loss)/profit for the year has been arrived at after charging/(crediting):

	2009 *£'000*	*2008* *£'000*
Continuing Operations		
Net foreign exchange losses/(gains)	31	(216)
Research and development costs (excluding amortization)	1,352	1,171
Amortization of intangible assets	969	824
Impairment of intangible assets	180	324
Depreciation of property, plant and equipment	109	96
Operating lease rentals – land and buildings	375	330
Operating lease rentals – other	92	(195)

Net foreign exchange gains arise on the translation of certain cash and trade balances held in Euros and US Dollars and are accordingly included in administration expense.

6. AUDITORS' REMUNERATION

	2009 *£'000*	*2008* *£'000*
Audit of the financial statements of the group	56	56

Fees for the audit of the company are not segregated from those for the group and are included in the above amounts.

7. STAFF COSTS

	Group	
	2009	2008
	£'000	£'000
Wages and salaries	5,706	5,313
Social security costs	443	390
Pension contributions	122	98
Employee benefits expense	432	318
Share-based payments expense (all equity-settled)	117	151
	6,820	6,270

Included within the above are staff costs capitalized as development expenditure amounting to £945,000 (2008: £797,000).

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

	Group	
	2009	2008
	£'000	£'000
Development and operations	68	65
Sales and management	31	33
	99	98

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

The fees and emoluments of all directors were as follows:

	2009	2008
	£'000	£'000
Fees and emoluments	459	493
Pension contributions	14	12
Share-based payments expense (all equity-settled)	39	44
	512	549

No director exercised share options during the year (2008: None). Pension contributions are to personal defined contribution schemes and have been made for three directors (2008: three) who served during the year.

The emoluments of the highest paid director were as follows:

	2009	2008
	£'000	£'000
Fees and emoluments	165	163
Pension contributions to defined contribution scheme	4	3
Share-based payments expense (all equity-settled)	21	21
	190	187

Full details of directors' remuneration are disclosed in the Report on Directors' Remuneration on page 17.

8. FINANCE INCOME

	2009	2008
	£'000	£'000
Income on financial assets measured at amortized cost		
Interest income on bank deposits	19	55

9. FINANCE EXPENSE

	2009 £'000	2008 £'000
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(240)	(211)

10. INCOME TAX EXPENSE

	2009 £'000	2008 £'000
Income tax expense for the year – current tax	-	15

The charge for the year can be reconciled to the accounting profit/(loss) as follows:

	2009 £'000	2008 £'000
Profit/(loss) before tax	(1,494)	44
Tax (charge)/credit at the UK corporation tax rate of 28 percent (2008: 28 percent)	418	(12)
Adjustment for differing rates of corporate taxation in overseas jurisdictions	29	(30)
Tax effect of expenses that are not deductible in determining taxable losses	(205)	(286)
Temporary differences arising from the capitalization and amortization of internally generated development costs	85	102
Losses for the year not relievable against current tax	(327)	-
Utilization of prior year losses	-	211
Income tax expense for the year	-	(15)

The prior year tax charge represents US Alternative Minimum Tax ("AMT"), which is payable notwithstanding the availability of tax losses from prior years. For AMT purposes, the use of prior year tax losses to offset current taxable profits is restricted to 90 percent of current year taxable profits, with AMT chargeable at a rate of 20 percent on the remaining 10 percent.

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

The unrecognized deferred tax asset is made up as follows:

	2009 £'000	2008 £'000
Shortfall of tax depreciation compared to book depreciation	165	165
Effect of timing differences arising from capitalization of internally generated development costs	(1,052)	(1,023)
Unrelieved trading losses	24,814	27,554
Unrecognized deferred tax asset	23,927	26,696

At 31 December 2009, tax losses estimated at £65 million were available to carry forward by the Sopheon group, arising from historic losses incurred. These losses represent a potential deferred tax asset of £23.9 million, based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of £20 million (representing £8.6 million of the potential deferred tax asset) represents pre-acquisition tax losses of Sopheon Corporation (Minnesota), Orbital Software Inc. and Alignent Software, Inc. The future utilization of these losses may be restricted under section 382 of the US Internal Revenue Code, whereby the ability to utilize 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.

11. LOSS DEALT WITH IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent company for the year ended 31 December 2009 was £1,239,000 (2008: £163,000). Advantage has been taken of Section 408 of the Companies Act 2006 not to present an income statement for the parent company.

12. (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share

	2009	2008
	£'000	*£'000*
(Loss)/profit after tax	(1,494)	29
	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	145,579	145,579

The profit attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted (loss)/earnings per ordinary share are the same as those used for calculating the basic (loss)/earnings per ordinary share in both 2009 and 2008. This is because the exercise of conversion rights attaching to the convertible loan stock, of warrants to subscribe for 502,790 ordinary shares, and of share options to subscribe for 12,141,618 ordinary shares, all of which are "out of the money" (details of which are set out in Notes 20, 24 and 28), would have the effect in 2009 of reducing the loss per ordinary share and in 2008 of increasing earnings per ordinary share (by virtue of interest receivable on subscription proceeds), and are therefore not dilutive.

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer equipment £'000*	*Furniture & fittings £'000*	*Total £'000*
Cost			
At 1 January 2008	1,753	360	2,113
Additions	81	4	85
Exchange differences	429	98	527
At 1 January 2009	2,263	462	2,725
Additions	48	-	48
Exchange differences	(145)	(34)	(179)
At 31 December 2009	2,166	428	2,594
Accumulated depreciation			
At 1 January 2008	1,595	336	1,931
Depreciation charge for the year	84	12	96
Exchange differences	372	91	463
At 1 January 2009	2,051	439	2,490
Depreciation charge for the year	99	10	109
Exchange differences	(124)	(32)	(156)
At 31 December 2009	2,026	417	2,443
Carrying amount			
At 31 December 2009	140	11	151
At 31 December 2008	212	23	235

The following rates are used for the depreciation of property, plant and equipment:

Computer equipment	20 to 33 percent on a straight-line basis
Furniture and fittings	20 to 25 percent on a straight-line basis

The net carrying amount of property, plant and equipment includes £Nil (2008: £1,000) in respect of assets held under finance leases.

Company
The company has no property, plant and equipment.

14. INTANGIBLE ASSETS

	Development costs (internally generated)	*Technology and IPR*	*Customer relationships*	*Goodwill*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Cost					
At 1 January 2008	2,967	700	1,313	493	5,473
Additions (internally generated)	797	-	-	-	797
Exchange differences	1,371	224	458	191	2,244
At 1 January 2009	5,135	924	1,771	684	8,514
Additions (internally generated)	945	-	-	-	945
Exchange differences	(596)	(61)	(152)	(75)	(884)
At 31 December 2009	5,484	863	1,619	609	8,575
Amortization					
At 1 January 2008	1,579	87	82	-	1,748
Charge for the year	459	188	177	-	824
Exchange differences	741	89	82	-	912
At 1 January 2009	2,779	364	341	-	3,484
Charge for the year	642	147	180	-	969
Exchange differences	(327)	(45)	(43)	-	(415)
At 31 December 2009	3,094	466	478	-	4,038
Accumulated Impairment Losses					
At 31 December 2008	-	-	-	-	-
Impairment losses in year	-	161	163	-	324
At 1 January 2009	-	161	163	-	324
Impairment losses in year	-	78	102	-	180
Exchange differences	-	20	20	-	40
At 31 December 2009	-	259	285	-	544
Carrying Amount					
At 31 December 2009	2,390	138	856	609	3,993
At 31 December 2008	2,356	399	1,267	684	4,706

The amortization period for the internally generated development costs relating to the group's software products is four years. The amortization periods for (a) technology & IPR and (b) customer relationships, arising from the acquisition of Alignent Software, Inc. in June 2007, are four years and eight years respectively. Goodwill is not amortized. The residual goodwill arising on the acquisition of Alignent is attributable to the enhanced market position of each of the group's operating segments, due to the completeness of the solution that Sopheon can offer the market, in addition to the ability to penetrate wholly new markets such as aerospace and defense for the overall product set. The recoverable amount of the goodwill can be underpinned on a value in use basis by the expected performance of each of the group's operating segments. The valuation used for this purpose is based on cash-flow projections for the next two years, then extrapolated using a pre-tax discount rate of 14.6 percent and an annual growth assumption of 20 percent for five years. Sensitivity analysis performed on these projections demonstrates significant valuation headroom above the carrying value of goodwill even at considerably lower growth rates. The annualized average growth of the business since the launch of our core Accolade solution is approximately 29 percent.

The initial valuation of the intangible assets acquired with Alignent relating to technology and IPR, and to customer relationships, used an income-based approach. During 2008 and 2009 the recurring income from the acquired Alignent customer base reduced, due to a mix of factors including the conversion of certain rental licenses to perpetual, changes in rental levels, and cancellations. The overall reduction exceeded the rate of attrition of such recurring income estimated in the original valuation exercise, leading to impairments in the carrying value of the acquired Alignent technology and IPR, and the acquired Alignent customer relationships, of £78,000 (2008: £161,000) and £102,000 (2008: £163,000) respectively.

All other assumptions of the original valuation have been retained in the impairment review. The valuation exercise, and the recoverable amount of the intangible assets and goodwill, are based on value in use with a pre-tax discount rate of 14.6 percent. The remaining amortization period for the acquired Alignent technology and IPR and the acquired Alignent customer relationships, are 1.5 and 5.5 years respectively.

Company
The company has no intangible assets.

15. SUBSIDIARIES

At 31 December 2008 and at 31 December 2009

	Company *£'000*
Cost	41,560
Less: Amounts provided	35,441
Carrying amount	6,119

Details of the company's subsidiaries at 31 December 2009 are set out below. Companies marked with an asterisk* are held via Sopheon UK Ltd and those with an obelus† are held via Orbital Software Holdings plc. The common stock of Alignent Software, Inc. is held by Sopheon Corporation, Delaware, USA.

Name of Company *Place of Incorporation*	*Nature of Ownership Interest*	*Proportion of Voting Rights Held*	*Nature of Business*
Sopheon Corporation Minnesota, USA	Common Stock	100 percent	Software sales and services
Sopheon Corporation Delaware, USA	Common Stock	100 percent	Software development and sales
Alignent Software, Inc. California, USA	Common Stock	100 percent	Software sales and services
Sopheon NV The Netherlands	Ordinary Shares	100 percent	Software sales and services
Sopheon UK Ltd. United Kingdom	Ordinary Shares	100 percent	Software sales and services
Orbital Software Holdings plc. United Kingdom	Ordinary Shares	100 percent	Holding company
Orbital Software Inc.† Delaware, USA	Common Stock	100 percent	Dormant
Sopheon Edinburgh Ltd.† United Kingdom	Ordinary Shares	100 percent	Dormant
Orbital Software Europe Ltd.† United Kingdom	Ordinary Shares	100 percent	Dormant
Network Managers (UK) Ltd.* United Kingdom	Ordinary Shares	100 percent	Dormant
AppliedNet Ltd.* United Kingdom	Ordinary Shares	100 percent	Dormant
Future Tense Ltd.* United Kingdom	Ordinary Shares	100 percent	Dormant
Polydoc Ltd. United Kingdom	Ordinary Shares	100 percent	Dormant
Applied Network Technology Ltd.* United Kingdom	Ordinary Shares	100 percent	Employee Share Ownership Trust

16. OTHER RECEIVABLE

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Other receivable	12	12	-	-

The other receivable represents a deposit paid in respect of a property leased by the group.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade receivables	2,693	3,293	-	-
Other receivables	7	25	18	-
Total receivables	2,700	3,318	18	-
Prepayments	203	242	15	28
Accrued income	2	8	-	-
	2,905	3,568	33	28

Trade and other receivables are stated net of allowances totaling £20,000 (2008: £4,000) for estimated irrecoverable amounts. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

A full provision has been made against amounts totaling £40,337,000 (2008: £39,412,000) 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.

18. CASH AND SHORT-TERM BANK DEPOSITS

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Cash at bank	1,214	1,165	648	-
Short-term bank deposits	410	1,421	370	1,421
	1,624	2,586	1,018	1,421

Cash and short-term bank deposits comprise cash held by the group, bank current accounts and short-term bank deposit accounts with maturities of three months or less and bearing interest at variable rates. The carrying amount of these assets represents a reasonable approximation to their fair value.

Included in cash at bank of the group is an amount of £23,000 (2008: £23,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	Group		*Company*	
	2009	*2008*	*2009*	*2008*
	£'000	*£'000*	*£'000*	*£'000*
Trade payables	276	367	31	45
Other payables	121	158	146	170
Tax and social security costs	139	157	-	-
Accruals	651	1,321	170	258
	1,187	2,003	347	473

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amounts of trade and other payables represent a reasonable approximation to their fair values.

20. BORROWINGS

	Group		*Company*	
	2009	*2008*	*2009*	*2008*
	£'000	*£'000*	*£'000*	*£'000*
Current Loans and Borrowings				
Line of credit	756	522	-	-
Loan notes (current portion)	584	558	-	-
	1,340	1,080	-	-
Non-current Loans and Borrowings				
Loan notes	372	1,103		-
8 percent convertible loan stock 2011	755	-	755	-
Embedded derivative represented by conversion rights attaching to loan stock	95	-	95	-
Total loans and borrowings	2,562	2,183	850	-

a) Line of Credit

The line of credit is denominated in US Dollars and bears interest at a variable rate currently 9.9 percent. The line of credit is a revolving facility limited to the lesser of $1,250,000 and 75 percent of the eligible trade receivables of the group's US subsidiaries, which at 31 December 2009 amounted to $3,533,000 (£2,187,000) (2008: $4,174,000 (£2,903,000)).

b) Loan Notes

The loan notes are denominated in US Dollars and are for an initial principal amount of $3,500,000 repayable in equal installments over the four-year period to July 2011 and bear interest at a fixed rate of 11.03 percent.

The loan notes and the line of credit, both of which are provided by BlueCrest Capital Finance LLC, are secured by a debenture and guarantee provided by Sopheon plc. The company has estimated the risk of this guarantee being called at 5 percent of the carrying value of the loan, and in its financial statements has included a provision for this amount within other payables.

The fixed interest rate on the loan note of 11.05 percent was based on the yield on the 3 year US Treasury Note at the time of issue, plus a spread of 6.05 percent. Although Treasury Note yields have now fallen, spreads on similar mezzanine financing instruments have also widened. Accordingly the directors consider that the carrying amounts for loan notes, and the line of credit, represent a reasonable approximation of the financial instruments' fair values.

c) 8 Percent Convertible Loan Stock 2011

The convertible loan stock, which was issued at par in a nominal amount of £850,000 on 1 October 2009, is denominated in Sterling and bears interest at a fixed rate of 8 percent per annum. It has the following principal terms:

i) The loan stock is convertible into Sopheon ordinary shares at a conversion price of 10p per share at the option of the holder between 1 October 2010 and 30 September 2011, or earlier if Sopheon undertakes an equity issue. Any loan stock which has not been converted will be redeemed at par on 30 September 2011.

ii) Subscribers to the loan stock have an option to subscribe for additional loan stock equal to one third of their initial holding between 1 October 2009 and 31 March 2010. Such additional loan stock shall be issued on the same terms, save that the conversion price will be 30 percent higher than the conversion price applicable to the original holding. If at any time prior to the date of conversion of the loan stock the company undertakes a placing or other issue at a lower price than the conversion price, the conversion price will be adjusted to such lower placing price.

The liability at maturity of the loan stock is £850,000. The carrying value of the liability component of the loan stock at 31 December 2009 was £755,000 based on discounted cash flows using a discount rate of 16.4 percent. The embedded derivative represented by the conversion rights attaching to the loan stock has been valued at fair value at £95,000 at 31 December 2009 using the binomial option-pricing model.

21. OBLIGATIONS UNDER FINANCE LEASES

The present value of future lease payments is analyzed as:

	Group		*Company*	
	2009	*2008*	*2009*	*2008*
	£'000	*£'000*	*£'000*	*£'000*
Current liabilities	1	3	-	-
Non-current liabilities	-	2	-	-
	1	5	-	-

The group leases a telephone system with a net carrying value at 31 December 2009 of £Nil (2008: £2,000). The lease is for a five year period to May 2010 and carries an implied rate of interest of 4 percent.

Future lease payments are due as follows:

At 31 December 2009	*Minimum lease payments*	*Interest*	*Present value*
	£'000	*£'000*	*£'000*
Within one year	1	-	1
Due in one-to-five years	-	-	-
	1	-	1

At 31 December 2008	*Minimum lease payments*	*Interest*	*Present value*
	£'000	*£'000*	*£'000*
Within one year	3	-	3
Due in one-to-five years	2	-	2
	5	-	5

22. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the group had outstanding commitments under operating leases in respect of which the total future minimum lease payments were due as follows:

	Land & buildings 2009 £'000	*Other 2009 £'000*	*Land & buildings 2008 £'000*	*Other 2008 £'000*
Due within one year	358	71	375	75
Due after one year and within five years	194	88	153	92
	552	159	528	167

The group leases its office accommodation in the US, UK and the Netherlands and has operating leases for office equipment and vehicles.

Company
The company has no operating leases.

23. FINANCIAL INSTRUMENTS

Categories of Financial Assets and Liabilities

The following table sets out the categories of financial instruments held by the group. All of the group's financial assets are in the category of loans and receivables, and all of its financial liabilities are in the category of financial liabilities measured at amortized cost, other than the embedded derivative represented by the conversion rights attaching to the group's 8 percent convertible loan stock 2011, which is stated at fair value through profit or loss.

a) Financial Assets

		Group		*Company*	
	Notes	*2009 £'000*	*2008 £'000*	*2009 £'000*	*2008 £'000*
i) Loans and receivables					
Current Financial Assets					
Trade receivables	17	2,693	3,293	-	-
Other receivables	17	7	25		-
Accrued income	17	2	8	-	-
Cash and cash equivalents	18	1,624	2,586	1,018	1,421
		4,326	5,912	1,018	1,421
Non-current Financial Assets					
Other receivable	16	12	12	-	-

The group does not have any financial assets in any other categories.

b) Financial Liabilities

		Group		Company	
	Notes	*2009* *£'000*	*2008* *£'000*	*2009* *£'000*	*2008* *£'000*
i) Financial liabilities at fair value through profit or loss					
Embedded derivative represented by conversion rights attaching to loan stock	20	95	-	95	-
ii) Financial liabilities measured at amortized cost					
Current Financial Liabilities					
Trade payables	19	276	367	31	45
Other payables	19	121	158	146	170
Accruals	19	651	1,321	170	258
Loans and borrowings	20	1,340	1,080		-
Obligations under finance lease	21	1	3	-	-
		2,389	2,929	347	473
Non-current Financial Liabilities					
Loans and borrowings	20	372	1,103	-	-
8% convertible loan stock 2011	20	755	-	755	-
Obligations under finance lease	21	-	2		-
		1,127	1,105	755	-
		3,516	4,034	1,102	473

Financial Instrument Risk Exposure and Management

The group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods, unless otherwise disclosed in this note.

Principal Financial Instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Loan notes
- Bank line of credit
- 8 percent convertible loan stock 2011

General Objectives, Policies and Processes

The board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The board receives quarterly reports from the group finance director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The group's risk management procedures are also reviewed periodically by the audit committee.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

1. Credit Risk

Credit risk arises principally from the group's trade receivables, other receivables and accrued income. It is the risk that the counterparty fails to discharge its obligations in respect of the instrument.

The group's software is principally marketed at major international corporations of good credit standing, and the group's historical bad debt experience is very low. Due to the potentially large size of certain individual sales, in a particular year one customer can account for a substantial proportion of revenues recorded. However, such concentrations rarely persist for multiple years and therefore the directors do not believe that the group is systematically exposed to credit risk concentration in respect of particular customers. In 2009, the largest single customer accounted for 4.7 percent of group revenues (2008: 9 percent).

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. At the year end the group was holding a proportion of its deposits and bank balances with each of Lloyds Banking Group plc, Royal Bank of Scotland plc, and Silicon Valley Bank.

The group does not enter into derivatives to manage credit risk.

The following table illustrates the group's maximum exposure to credit risk, by class of financial instruments, at the balance sheet date, including a geographical analysis of exposure in respect of trade receivables:

	2009 Carrying value £'000	*2009 Maximum exposure £'000*	*2008 Carrying value £'000*	*2008 Maximum exposure £'000*
Trade receivables				
North America	2,188	2,188	2,784	2,784
EMEA	505	505	509	509
Total trade receivables	2,693	2,693	3,293	3,293
Other receivables	19	19	37	37
Accrued income	2	2	8	8
Cash and cash equivalents	1,624	1,624	2,586	2,586
Maximum credit risk exposure	4,338	4,338	5,924	5,924

The group's customers are major international corporations of high credit standing and therefore the group does not typically obtain credit ratings for individual customers. Nevertheless, current economic conditions have resulted in such major corporations slowing down payments and this is reflected in the ageing profile of the group's receivables. However, impairment of trade receivables is very rare, and in the three years ending 31 December 2009 provisions or write-offs against customer receivables amounted in total to less than 0.5 percent of revenues. Such impairments do not arise from credit defaults, but principally from disagreements with a very small number of former customers over their responsibility for renewal fees for maintenance or hosting contracts. Sopheon's policy is to pursue collection of such fees but to make provision against the applicable receivable if collection is uncertain.

The following is an analysis of the group's trade receivables identifying the totals of trade receivables which are current and those which are past due but not impaired:

	Total £'000	*Current £'000*	*Past due +30 days £'000*	*Past due +60 days £'000*
At 31 December 2009	2,693	2,196	287	210
At 31 December 2008	3,293	2,824	243	226

The following is an analysis of the group's provisions against trade receivables, analyzed between the geographical segments in which the group's operations are located:

	2009			2008		
	£'000 Gross value	*£'000 Provision*	*£'000 Carrying value*	*£'000 Gross value*	*£'000 Provision*	*£'000 Carrying value*
Trade receivables						
North America	2,204	16	2,188	2,784	-	2,784
EMEA	509	4	505	513	4	509
	2,713	20	2,693	3,297	4	3,293

The group records impairment losses on its trade receivables separately from the gross amounts receivable.

The movements on this allowance during the year are summarized below:

	2009 £'000	*2008 £'000*
Opening balance	4	47
Increases in provisions	16	-
Written off against provisions	-	(43)
Closing balance	20	4

The main factors used in assessing the impairment of the group's trade receivables are the age of the balances and the circumstances of the individual customer.

The company provides in full for amounts due from subsidiaries. The company is exposed to credit risk in respect of its cash and cash equivalents, which are held in the form of current account and money market balances with leading UK banking institutions.

2. Liquidity Risk

Liquidity risk arises from the group's management of working capital, and more particularly its ability to reach a point where its trading is cash generative, together with the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulties in meeting its financial obligations as they fall due.

The group's policy is to maintain significant cash balances, short-term bank deposits and facilities with a view to having sufficient cash to meet its liabilities when they become due. The board annually approves budgets including cash flow projections for each of the operating companies within the group and receives regular information as to cash balances held and progress against budget. Attention is particularly drawn to the detailed discussion of the factors which enable the group to continue as a going concern for the foreseeable future in the section headed "Going Concern" in Note 2 to the financial statements.

The following table sets out an analysis of the contractual maturity of the group's and the company's financial liabilities that must be settled gross, based on exchange rates prevailing at the relevant balance sheet date.

Group

At 31 December 2009	*Within one year £'000*	*Within five years £'000*	*Total £'000*
Trade and other payables	1,187	-	1,187
Line of credit	756	-	756
Loan notes	584	372	956
Future interest – loan notes	78	14	92
Convertible loan stock	-	850	850
Future interest – convertible loan stock	68	51	119
Finance lease	1	-	1
Total financial liabilities	2,674	1,287	3,961

At 31 December 2008	*Within one year £'000*	*Within five years £'000*	*Total £'000*
Trade and other payables	2,003	-	2,003
Line of credit	522	-	522
Loan notes	558	1,103	1,661
Future interest – loan notes	157	103	260
Finance lease	3	2	5
Total financial liabilities	3,243	1,208	4,451

Company

At 31 December 2009	*Within one year £'000*	*One to five years £'000*	*Total £'000*
Trade and other payables	347	-	347
Convertible loan stock	-	850	850
Future interest – convertible loan stock	68	51	119
Total financial liabilities	415	901	1,316

At 31 December 2008	*Within one year £'000*	*One to five years £'000*	*Total £'000*
Trade and other payables	473	-	473
Total financial liabilities	473	-	473

3. Market Risk

Market risk arises from the group's use of interest-bearing and foreign currency financial instruments. It is the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

The group does not have any financial instruments that are publicly traded securities and is not exposed to other price risk associated with changes in the market prices of such securities.

4. Interest Rate Risk

The group's fixed rate interest bearing liabilities comprise loan notes with a carrying value at 31 December 2009 of £956,000 which bear a fixed interest rate of 11.03 percent and convertible loan stock with a carrying value of £850,000 which bear a fixed interest rate of 8 percent. These liabilities do not give rise to interest rate risk. The group also has a line of credit for £756,000 which bears a variable interest rate based on a margin of 1.25 percent above the lender's Prime Rate. Should this rate vary by 1 percent the annualized effect would be to increase or reduce finance costs by £8,000.

The company's interest bearing liabilities consist of its convertible loan stock which bears a fixed rate of interest of 8 percent, which does not give rise to interest rate risk.

The group invests its surplus cash in bank deposits denominated in US Dollars, Euros or Sterling, which bear interest based on short-term money market rates, and in doing so exposes itself to fluctuations in money market interest rates. The group's surplus cash held in the form of bank deposits at the balance sheet date was £410,000. The annualized effect of a movement of 1 percent in the average interest rate received on the group's bank deposits at the balance sheet date would result in an increase or decrease in the group's and the company's interest income of £4,000.

The company's interest bearing deposits at the balance sheet date were £370,000. The annualized effect of a movement of 1 percent in the average interest rate received on the group's bank deposits at the balance sheet date would result in an increase or decrease the company's interest income of £4,000.

5. Currency Risk

The following is an analysis of the group's financial assets and liabilities, analyzed by the currency in which they are denominated:

At 31 December 2009

	US Dollars	*Sterling*	*Euro*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Financial assets:				
Receivables and accrued income	2,202	341	171	2,714
Cash and cash equivalents	788	451	385	1,624
Total financial assets	2,990	792	556	4,338
Financial liabilities:				
Trade and other payables	528	369	290	1,187
Borrowings	1,712	850	-	2,562
Total financial liabilities	2,240	1,219	290	3,749

At 31 December 2008

	US Dollars	*Sterling*	*Euro*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Financial assets:				
Receivables and accrued income	2,817	331	190	3,338
Cash and cash equivalents	1,075	877	634	2,586
Total financial assets	3,892	1,208	824	5,924
Financial liabilities:				
Trade and other payables	1,141	430	432	2,003
Borrowings	2,188	-	-	2,188
Total financial liabilities	3,329	430	432	4,191

The group's policy is, where possible, to allow group entities to settle liabilities denominated in the functional currency with cash generated from their own operations in that currency. The group also maintains cash and bank deposits in the currencies which are the functional currencies of its operating entities, which are the US Dollar, the Euro and Sterling.

The group is exposed to currency risk in respect of foreign currency denominated bank deposits and bank loans. Taking into account the fact that a large proportion of the group's income and expenditure arise in US Dollars and, to a lesser extent, in Euros, the group's policy is not to seek to hedge such currency risk.

Foreign currency risk also arises where individual group entities enter into transactions denominated in currencies other than their functional currency, with fluctuations in exchange rates giving rise to gains or losses in the income statement. Where the foreign currency risk to the group is significant, consideration is given to hedging the risk through the forward currency market and, whilst this would be an economic hedge of the cash-flow risk, the group does not employ hedge accounting.

The following table shows the effects, all other things being equal, of changes to exchange rates on the group's loss after tax and on the exchange differences on retranslation of the assets and liabilities of foreign operations which is recognized directly in equity. It illustrates the effects if the exchange rates for the US Dollar and the Euro had been higher or lower than those which actually applied during the year and at the year end.

	2009	*2008*	*2009*	*2008*
	Decrease/ (increase) in loss after tax	*Increase/ (decrease) in profit after tax*	*Effect of exchange differences on translation of assets and liabilities of foreign operations*	
	£'000	*£'000*	*£'000*	*£'000*
Weakening of US Dollar by 10c	22	(25)	(93)	(31)
Strengthening of US Dollar by 10c	(24)	31	106	45
Weakening of Euro by 10c	77	(9)	(69)	(57)
Strengthening of Euro by 10c	(92)	47	82	61

The company holds certain assets, mainly bank deposits, and liabilities denominated in the functional currencies of its principal operating subsidiaries, which are the US Dollar, the Euro and Sterling. The following table shows the effects, all other things being equal, of changes to exchange rates at the year end on the loss after tax of the company. It is based on the company's assets and liabilities at the relevant balance sheet date.

	2009	*2008*
	(Increase)/decrease in loss after tax	
	£'000	*£'000*
Weakening of US Dollar by 10c	(16)	4
Strengthening of US Dollar by 10c	18	(3)
Weakening of Euro by 10c	(22)	(48)
Strengthening of Euro by 10c	27	61

6. Capital

The group considers its capital to comprise its share capital and share premium and other capital reserves less the accumulated retained losses. The group is not subject to any externally imposed capital requirements. In managing its capital, the group's primary objective is to support the development of the group's activities through to the point where they are cash generative on a sustained basis.

The group's capital is all equity capital and is summarized in Note 24.

24. SHARE CAPITAL

Issued and Fully Paid	*2009 Number*	*2009 £'000*	*2008 Number*	*2008 £'000*
Ordinary shares of 5p each	145,579,027	7,279	145,579,027	7,279

The company has one class of ordinary shares, which carry no right to fixed income.

At 31 December 2009 the company had outstanding 502,790 warrants to subscribe for ordinary shares at a price of 20p per share, which were issued in June 2007 to BlueCrest Capital Finance LLC in connection with the financing of the acquisition of Alignent Software, Inc.

25. CAPITAL RESERVES

Group

	Share premium £'000	*Merger reserve £'000*	*Capital redemption reserve £'000*	*Share options reserve £'000*	*Total £'000*
At 1 January 2008	52,096	17,944	2,884	575	73,499
Recognition of share-based payments	-	-	-	151	151
Lapsing of share options	-	-	-	(23)	(23)
At 1 January 2009	52,096	17,944	2,884	703	73,627
Recognition of share-based payments	-	-	-	117	117
Lapsing of share options	-	-	-	(111)	(111)
At 31 December 2009	52,096	17,944	2,884	709	73,633

Company

	Share premium £'000	*Merger reserve £'000*	*Capital redemption reserve £'000*	*Share options reserve £'000*	*Total £'000*
At 1 January 2008	52,096	10,179	2,884	575	65,734
Recognition of share-based payments	-	-	-	151	151
Lapsing of share options	-	-	-	(23)	(23)
At 1 January 2008	52,096	10,179	2,884	703	65,862
Recognition of share-based payments	-	-	-	117	117
Lapsing of share options	-	-	-	(111)	(111)
At 31 December 2009	52,096	10,179	2,884	709	65,868

Share premium represents the premium arising on the issue of shares and its use is governed by the provisions of the Companies Act 2006.

Merger reserve is a non-statutory reserve representing the premium on the issue of shares pursuant to certain past business combinations which meet specified criteria.

The capital redemption reserve is a non-distributable reserve arising from the cancellation in 2001 of deferred shares.

The share options reserve comprises the deemed value of outstanding share options granted in connection with the acquisitions of Teltech Resource Network Corporation in 2000 and of Orbital Software Holdings plc in 2001, together with the fair value of share-based payments to employees pursuant to the group's share option schemes, and the fair value of warrants to subscribe for Sopheon shares issued to BlueCrest Capital Finance LLC.

26. RETIREMENT BENEFIT PLANS

The group operates defined contribution retirement benefit plans which employees are entitled to join. The total expense recognized in the income statement of £122,000 (2008: £98,000) represents contributions paid to such plans at rates specified in the rules of the plans.

27. RELATED PARTY TRANSACTIONS

Details of transactions between the group and related parties are disclosed below.

Compensation of Key Management Personnel

Details of directors' remuneration are given in Note 7. The total remuneration of directors and members of the group's executive management committee during the year was as follows:

	2009	*2008*
	£'000	*£'000*
Emoluments and benefits	718	743
Pension contributions	21	18
Share-based payments	56	70
	795	831

Transactions with Related Parties who are Subsidiaries of the Company

The following is a summary of the transactions of the company with its subsidiaries during the year:

	2009	*2008*
	£'000	*£'000*
Net amounts (advanced to)/repaid by subsidiaries by way of interest-free loans	(694)	190
Net management charges to subsidiaries	220	210

The amounts owed by subsidiary companies to the parent company at 31 December 2009 totaled £40,337,000 (2008: £39,412,000). A full provision has been made against these amounts, which are unsecured and are subordinated to the claims of all other creditors.

During 2009 the company did not grant share options to employees of subsidiary companies (2008: 2,731,224 options). Details of grants of share options are disclosed in Note 28.

Other Related Party Transactions

On 1 October 2009 certain directors and members of the group's executive management committee subscribed for an aggregate of £415,000 in nominal value of the company's 8 percent convertible loan stock 2011 at par. The amounts subscribed by directors are set out in the Directors' Report. There were no other related party transactions during the year under review or the previous year.

28. SHARE-BASED PAYMENTS

Equity-Settled Share Option Schemes

The group has a number of share option schemes for all employees. Options are exercisable at a price equal to the market price on the date of grant. The normal vesting periods are as set out below.

	Vesting
Sopheon plc (USA) stock option plan	In three equal tranches between the first and third anniversary of grant
Sopheon UK approved share option scheme	On third anniversary of grant
Sopheon UK unapproved share option scheme	Immediate or as per USA plan
Sopheon NV share option scheme	Immediate or as per USA plan

Details of the share options outstanding during the year are as follows:

	Number of share options 2009	*Weighted average exercise price 2009 £*	*Number of share options 2008*	*Weighted average exercise price 2008 £*
Outstanding at the beginning of the year	13,104,438	0.24	10,925,314	0.27
Granted during the year	-	-	2,731,224	0.14
Lapsed or expired during the year	(962,820)	0.55	(552,100)	0.14
Outstanding at the end of the year	12,141,618	0.22	13,104,438	0.24
Exercisable at the end of the year	10,272,293	0.23	8,786,131	0.27

No share options were exercised during the year (2008: Nil). The options outstanding at the end of the year have a weighted average contractual life of 5.2 years (2008: 6.3 years).

In 2009, there were no grants of share options. In 2008 share options were granted on 1 April 2008 and on 27 June 2008. The exercise prices of the options granted on 1 April 2008 was 13.25p, and the estimated fair value was 7.8p. The exercise prices of the options granted on 27 June 2008 were 14p (for options granted mainly under the US and UK schemes) and 14.75p (for certain options granted under the Dutch scheme), and the estimated fair values were 8.3p and 4.9p respectively.

The fair values for options granted in 2008 were calculated using the binomial option-pricing model. The principal assumptions used were:

	27 June 2008	*27 June 2008*	*1 April 2008*
Share price at time of grant	14.75p	14p	13.25p
Exercise price	14.75p	14p	13.25p
Expected volatility	40 percent	40 percent	40 percent
Risk-free rate	5 percent	5 percent	5 percent
Expected dividend yield	Nil	Nil	Nil

The expected contractual life of the options used was either five or ten years depending on the particular scheme rules.

Expected volatility was determined by reference to the historic volatility of the company's share price in the period before the date of grant.

The group and company recognized total expenses of £117,000 (2008: £151,000) relating to equity-settled share-based payments during the year.

DIRECTORS

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 a 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 auditor and consultant with Ernst & Young in London, Brussels and Reading, 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 Lawford & Co. and a director of Lawfords Ltd., chartered accountants. Mr. Silcock was a non-executive director of Brown & Jackson plc. for four years from June 2001 to July 2005 and currently holds a number of other directorships in the United Kingdom.

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.

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.

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