SOPHEON 2013

ANNUAL REPORT

sopheon

Where innovation means business™

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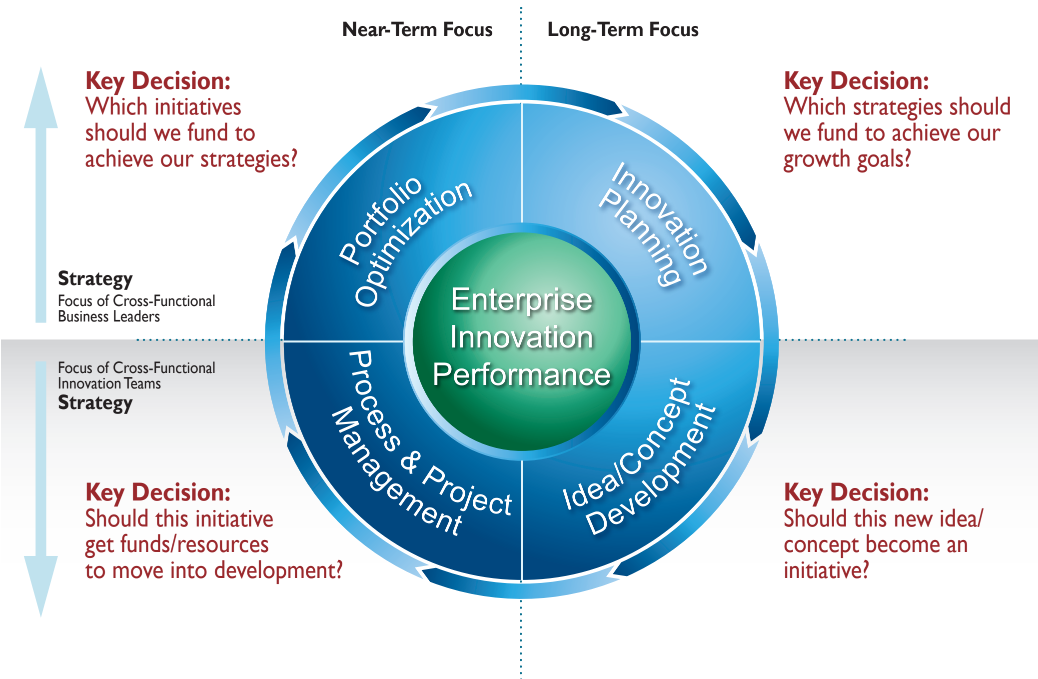
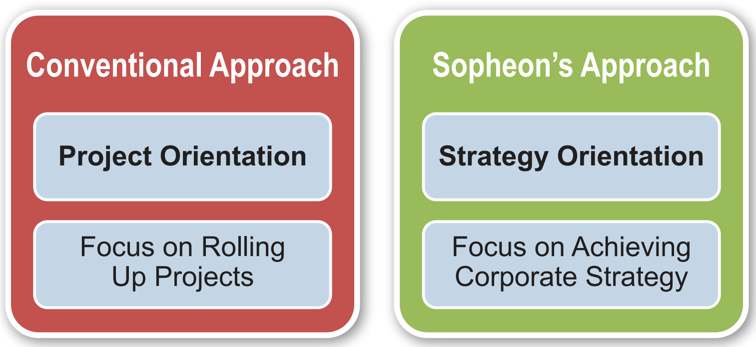
We do this by providing **software, services and best practices** that help complex, global enterprises to increase the market success rate of their innovation efforts, to improve R&D throughput and time to market, and to increase the value per product or service in their innovation portfolio. We provide transparency and insight to improve decision making through an integrated enterprise innovation platform which drives performance across the four distinct business capabilities required to achieve sustainable innovation.



Good execution of a bad strategy drives bad results. The Sopheon solution was designed from the start to ensure that **business strategy** stays front of mind throughout the project lifecycle, ensuring market success.



Our Headline Financials

		2013	2012	2011	2010	2009
Revenue	**£'000**	**13,276**	**12,663**	**10,276**	**10,537**	**8,260**
EBITDA	**£'000**	**1,930**	**1,803**	**1,491**	**1,510**	**(195)**
Profit before tax	**£'000**	**341**	**281**	**104**	**171**	**(1,494)**
Pre financing cashflow	**£'000**	**(740)**	**1,070**	**151**	**1,320**	**(1,276)**
Net Assets	**£'000**	**3,510**	**3,264**	**3,082**	**3,008**	**2,685**
Gross Cash	**£'000**	**2,436**	**3,880**	**2,941**	**3,358**	**1,624**
Working capital	**£'000**	**4,887**	**4,315**	**3,289**	**4,145**	**2,001**
Long-term liabilities	**£'000**	**(1,978)**	**(2,121)**	**(1,663)**	**(2,290)**	**(1,222)**

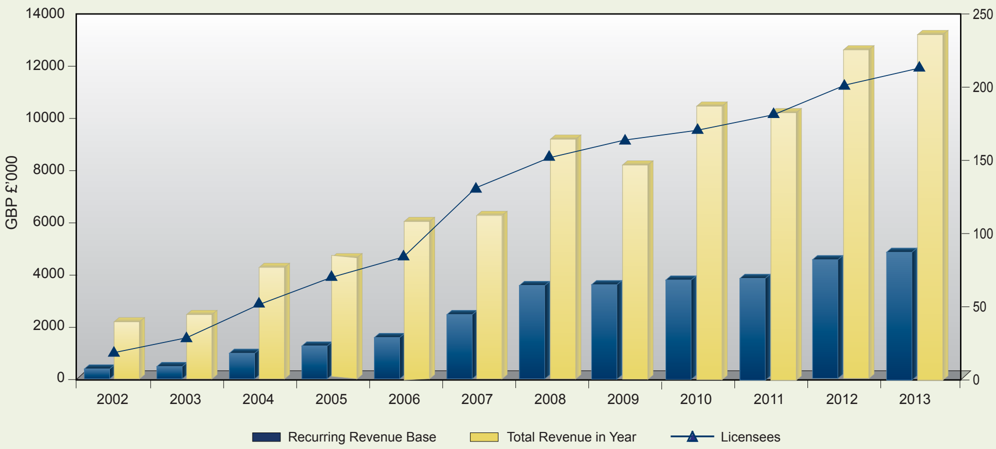
Working capital is calculated as net current assets after adding back deferred income.

Revenues grew to £13.3m in 2013, alongside another year of improvement in profitability for both EBITDA and profit after tax. A number of corporate milestones were taken forward, including a capital reduction, a share 20:1 consolidation, extension of equity line facilities, and development of a new debt partner in Silicon Valley Bank. We released new software versions with a redeveloped and fully integrated roadmapping platform, improved interactivity of planning and portfolio, social networking capabilities, and better readiness for cloud deployment.

Where to Find Us

In addition to our own locations in America and Europe, Sopheon has developed a wide reseller network. Work with strategic partners continues to gather pace, with new deals won and several new opportunities being worked with major consulting organizations. We established a new development team in the Netherlands, supplementing our core Denver-based center.

How We've Grown



The year saw continued growth after the strong advance in 2012. Annualized growth since the launch of Accolade remains above 20%. The final quarter was exceptionally busy and exceeded previous highs. Our focus on vertical markets resulted in several new license wins from consumer goods companies. In total, we added 16 new customers in the year. The recurring revenue base rose to £4.8m.

CHAIRMAN'S STATEMENT

We recorded continued growth in 2013. Revenues rose from £12.7m in 2012 to £13.3m in 2013, alongside another year of improvement in profitability at both the EBITDA and profit after tax level. Towards the end of last year, we noted that meeting our commercial goals would require a strong finish to the year. The final weeks did indeed prove exceptionally busy, and revenues in the fourth quarter exceeded previous historical highs. Our strong customer base accounted for 65 percent of non-recurring revenues in 2013 compared to 49 percent the year before. Furthermore, the robust finish to the year has resulted in a high services backlog for 2014. Visibility for the current year stands at £6.9m as compared to £6.4m at this time last year.

Our focus on vertical markets resulted in several new license wins from consumer goods companies. In total, we added 16 new customers in the year. Sopheon's agile development methodology continued to bear fruit, with two milestone software releases in the year. Amongst a host of other improvements, Accolade 8.3 introduced enhancements in portfolio, resource management and collaboration. Accolade 9.0 introduced a new roadmapping platform, improved interactivity of planning and portfolio, social networking capabilities and better readiness for cloud deployment. These releases were driven out of explicit market need and reflect extensive input from our customer panels. Our work with strategic partners also continues to gather pace, with new deals won and several new opportunities being worked with major consulting organizations. In the coming year, we will also continue to add direct sales resources, both to drive expansion in our existing customer base and to drive new customer acquisition.

A number of corporate milestones were advanced in 2013. We secured court approval for a capital reduction, thereby reducing the deficit on the group's accumulated reserves and completing a further milestone in the corporate changes that started with last year's transfer from Euronext to Alternext. We also implemented a share consolidation which reduced the number of shares in issue by a ratio of 20:1, and decreased the number of very small shareholdings by over 5,000. On a financing front, we extended our equity line facility for an additional two years. In addition, we are delighted to have concluded $3.5m in new debt facilities with Silicon Valley Bank.

We believe the market for what we do is maturing. We are seeing more competition, which both provides evidence and validation of the market but also means we must continue to advance and lead the industry with our solutions. We have sustained a controlled expansion of staff levels since 2010 while continuing to drive revenue and profitability improvements. We will continue to link investment with performance. Energized by our record fourth quarter, we remain focused on keeping the Sopheon Accolade® suite at the forefront of the emerging market for enterprise innovation performance, and are working diligently to drive and position our business for scalable growth.

Barry Mence
Executive Chairman

19 March 2014

STRATEGIC REPORT

In this report, our CEO Andy Michuda provides more details on Sopheon's mission and differentiation, our principal growth strategies and an update on our people, processes and platform. A summary of the principal risks areas facing the business is set out in the Directors' Report. Further analysis of Sopheon's financial results during the year including a review of the business, the financial position at the end of the year, key indicators and an overview of key corporate developments are set out in the Financial Report that follows this report.

What We Do

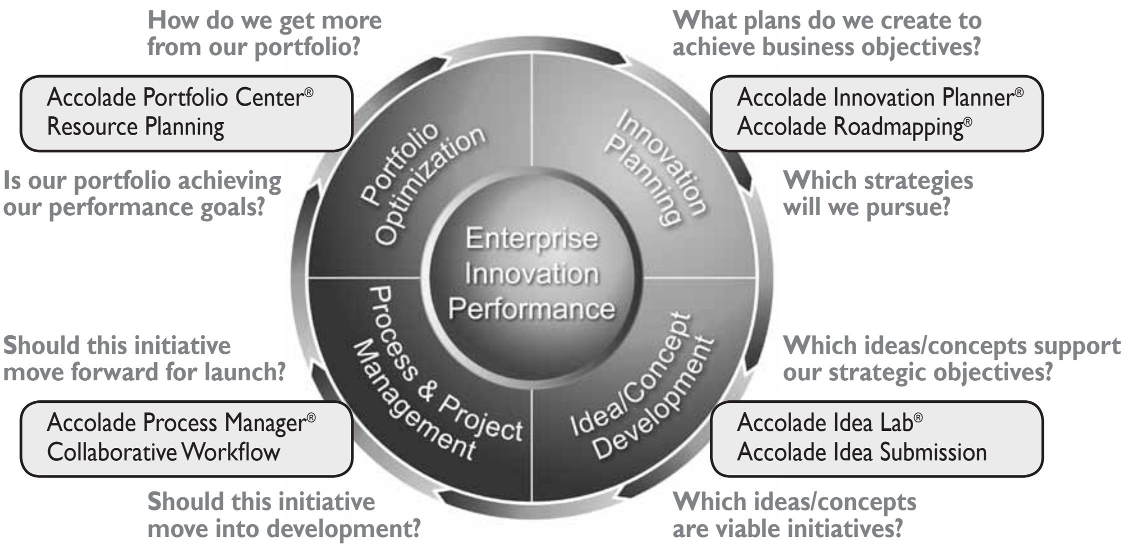
Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation. We do this by providing software, services and best practices that help complex, global enterprises to increase the market success rate of their innovation efforts, to improve R&D throughput and time to market, and to increase the value per product or service in their innovation portfolio. We provide transparency and insight to improve decision making through an enterprise innovation platform which drives performance across the four distinct business capabilities required to achieve sustainable innovation.

- Strategic alignment of long-term **Innovation Plans** with market requirements, industry regulations, and supply chain capabilities, to create stronger strategic initiatives and priorities.
- Generation and development of higher value **Ideas and Concepts** to fill key gaps relevant to achieving strategic initiatives.
- Improved **Process and Project Management** that tracks and enables key decision making, focused on evaluating projects associated with innovation initiatives, and accelerating productivity and velocity of development efforts through better execution and collaboration.
- Data management and integrity tools to enable improved project management and **Portfolio Optimization**, which ensures the best return on innovation investments.

Research indicates that on average, only 50 percent of new products achieve their desired business objectives. We have helped customers implement effective innovation management processes to dramatically increase this success rate, with some as high as 85 percent.

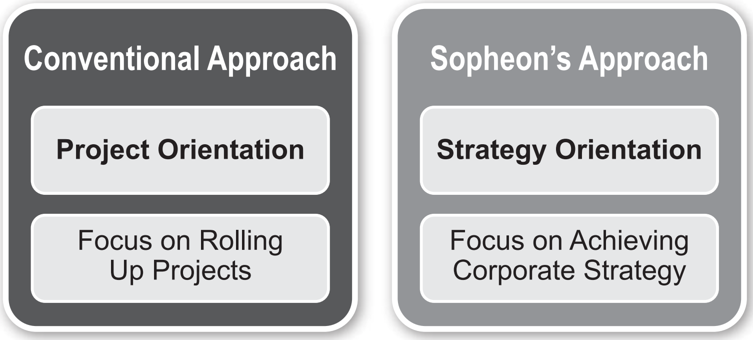
A common innovation and new product development challenge companies face is coordinating resources to bring products to market. We help improve throughput efficiency, enabling 15-30 percent more products to be brought to market for the same investment.

Companies can increase the value of their portfolios by 75-100 percent or more, by connecting innovation planning to business objectives, developing better initiatives in the innovation funnel, more effectively managing processes, and optimizing portfolios with our Accolade solution.



What Makes Sopheon Different

Many companies use project management tools to try and address their innovation management concerns. At Sopheon we believe that good execution of a bad strategy drives bad results. The Sopheon solution was designed from the start to ensure that business strategy stays front of mind. During 2013, we released a number of advances to address project management challenges but have not departed from our core philosophy of putting business strategy first.



Our integrated support for the entire lifecycle enables critical decision-making at every step to help companies achieve significant innovation performance improvements across the enterprise. Sopheon's solutions have been implemented by over 200 customers with over 60,000 users in over 50 countries.

"The development of an innovation strategy is predominantly a top-down exercise."

— Innovation Leadership Study Cap Gemini, 2013

Customer Value Trends

We see a convergence of several business, economic and market trends that play directly into Sopheon's market position, solutions and investments. We have identified three major trends from interactions with our customers, in the market, and from research sources. We believe that Sopheon is uniquely positioned to leverage these trends with our proven solutions, services, expertise and best practices.

- **Business Transformation** – Companies are exploring innovative options to transform their business models for increased competitiveness, disruptive operating models, and greater connectedness with customers, and other strategic initiatives. Sopheon provides these companies with solutions to undertake these high-risk/high-reward initiatives with structured planning, governance and performance measurement that greatly improve success probabilities.

- **Increased Operating Plan Cadence** – Most companies are realizing that the traditional annual operating plan (AOP) done in spreadsheets and presentations is not effective and does not systematically drive relevant action, results and alignment in innovation initiatives. Companies face increasing disruptive and unplanned events from their markets which requires an ability to quickly assess a situation, make fact-based informed decisions, and then implement appropriate actions. Sopheon's solutions provide companies with the means to increase their operating plan cadence to intervals aligned with their dynamic business circumstances, which includes integration that directly drives and connects monthly and daily operational activities with a feedback and performance loop.

- **Sustainable Enterprise Innovation** – Customers, prospective buyers and industry analysts see the value of an integrated Innovation Platform approach across the enterprise for driving innovation and managing portfolios that Sopheon has promoted for several years, as a key solution requirement to support and connect strategies and initiatives through and across the enterprise. This means that a CEO-level objective can be driven, propagated, managed and tracked through all areas and levels of the enterprise. The flexibility with which Sopheon's solutions can be applied uniquely supports this enterprise process need.

"Our research shows that, over the last 3 years, leading innovators have grown at a rate 16 percent higher than the least innovative. Moving forward, these same leading innovators forecast their rate of growth will increase to almost double the global average, and over three times higher than the least innovative companies."

— Breakthrough Innovation and Growth
PwC, 2013

Growth Strategies

As we have stated consistently, Sopheon's growth strategies center on three central objectives:

- **Increase industry-specific alignment of solutions and marketing:** We have always believed that different vertical markets, while sharing core functionality needs, have differing pain-points and best-practice traditions. In 2012 we started to realign sales, product and marketing initiatives around target growth industries. We revised our marketing approach to be a more vertical-specific, integrated mix of tactics including digital, web-based and social media methods as well as more traditional approaches such as conferences and direct mail. Target sectors have included consumer goods, food and beverage, chemical, high-tech and aerospace & defense. During 2013 we put particular emphasis on the first two by creating a dedicated consumer goods sales team; this allowed us to create real momentum in a market which is a cornerstone of our business. This is exemplified by the fact that we have for four years running been voted among the top 10 providers of New Product Development & Introduction Solutions by consumer goods executives. Our success in this segment is acting as a template for 2014 initiatives in other sectors.

- **Introduce new offerings to leverage growth from our customer base:** Sopheon's roster of customer names is a hugely impressive list of the world's leading companies. We continue to expand the range of our innovation solutions to enable expansion within our customers and to ensure that they continue to see material value from their relationship with us. In 2012 we released Accolade Innovation Planner to assist companies in creating strategic enterprise innovation plans. Last year, we took this a major stage further by migrating roadmapping support from our Vision Strategist® software to our core Accolade platform, offering a single-database repository for strategic planning, operational execution and portfolio decision-making. We believe this is unique. We are also investing in our client growth strategy by recruiting dedicated account management resources and focusing social marketing programs on our customer base.

- **Expand direct and indirect distribution channels to acquire new accounts:** Over the last two years we have expanded our presence outside our foundation markets, most notably through the acquisition of our German reseller partner, giving us coverage in Europe's most dynamic industrial economy. In the USA, we continue to migrate towards a hunter/farmer sales and marketing model with dual goals and targets for new customer acquisition along with extension and retention of our existing customer base. This will be supported by new target account initiatives, backed by externally-sourced research. We have also outsourced aspects of lead generation to ensure we leverage best practices in an area that is seeing ferocious advances in customer nurturing and lead response times. The reseller and consulting partner footprint continues to expand with new representation added during the year in Latin America and Asia. We continued to develop our ties with consulting firms, an area we believe will be key to the acceleration of our growth. We were delighted to welcome KPMG, Adept and Googol at our recent annual sales kick-off event; these new partners bring deep relationships with key decision makers in our target markets.

"Sopheon provided an excellent team of true innovation people, not IT driven. They came from the business innovation side but also provided strong project management during implementation and when necessary had skilled IT people that truly understood the technical capabilities, including Sopheon Germany who spoke the language and gave us an extensive background."

— Dr. Joachim Dohm
Bayer Material Science

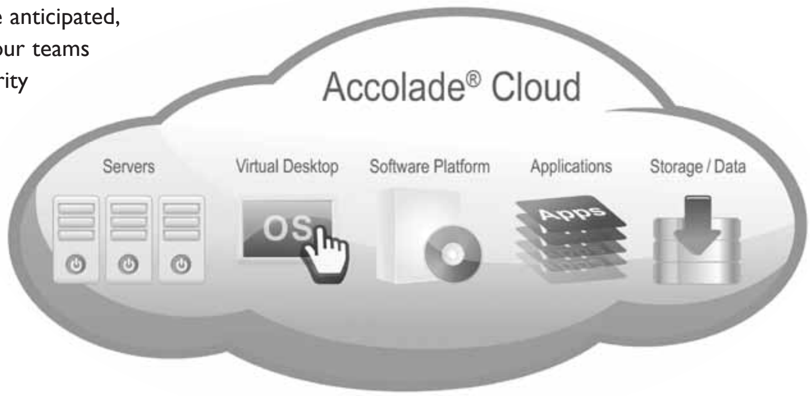
People, Process & Platform

People & Process

Sopheon is differentiated in the market by its reputation for deep domain expertise in innovation management. That know-how is instituted in our methodologies, our best practices and our substantial experience developed through many years of helping top businesses achieve innovation success. We are very proud of the commitment that our people have shown to the company. During 2013, we invested in a formal professional development program for our middle leaders, which was very well received and will be extended in 2014. Beyond this, formal mentoring, training and certification programs are now in place both to integrate new recruits and also to maintain and uplift the skills of existing staff. Our goal is to reduce the ramp-up time for new employees, and in turn, improve our ability to scale our organization while maintaining customer satisfaction. This priority continues to have high visibility inside our company.

Towards the end of 2012 we started a major transformation in our services organizations, in preparation for the next 'step change' in operating level required to support our continued growth plans. This continued through 2013. We now have a single global Customer Success (consulting and implementation services) organization, with standardized methodologies and reporting mechanisms, under a single global leader supported by four separately-led teams. These teams are customer-facing in their activities, relationships and service delivery and increasingly are vertically aligned to our target industries. Similarly, the Customer Support organization has migrated from a regionally-based model with independent helpdesk to a single global team with people located across time zones to support local customer requests.

In addition to their mainstream duties, as we anticipated, 2013 was an extremely busy year for all of our teams from the standpoint of completing the majority of the upgrade work required to transition customers to the 8.X platform. We also updated and rebranded our Accolade Cloud solution to provide customers with multiple deployment and solution access options to meet their specific business needs and circumstances.



Platform

Over the years Sopheon has made significant investments in product development, which has been consistently held above 20 percent of revenue. In 2011 we completed a multi-year effort to replace our core product platform with Microsoft .NET technology – a contemporary software framework which offers design flexibility while also being an industry standard technology platform that has brought new levels of efficiency to our software development process. Another benefit to our clients is an easier and faster upgrade and installation path.

Our Product Development organization is also structured into parallel teams with formal product management guidance. Leveraging the .NET foundation, our adoption of agile methodology drives greater customer interaction and feedback directly into the development process. Our original objective was to deliver multiple product releases each year. In 2012 we delivered three significant releases starting with the core 8.X platform. Sopheon, like most business software vendors, used to deliver releases every 12-18 months. Agile makes our releases highly market responsive.

We continued a rapid pace in 2013 with Accolade 8.3 and 9.0 releases in June and November respectively. Amongst a host of other improvements, Accolade 8.3 in portfolio, resource management and collaboration. Accolade 9.0 introduced a new roadmapping platform called Accolade Roadmapping (which superceded Accolade Vision Strategist), improved interactivity of planning and portfolio, social networking capabilities and improved cloud deployment. These releases are aligned to market needs and reflect extensive input from our customer panels.

Beyond the market and customer inputs, at the strategic level we have identified four key product roadmap drivers for the coming two years - social, mobile, cloud and information. These drivers mesh with global trends that are facing the majority of software companies today and we are focused on ensuring that new releases keep pace with market expectations in these areas.

Sopheon's Accolade solution provides integrated support for innovation planning, roadmapping, idea and concept development, process, project, portfolio, resource and in-market management.

"Part of NOV's mission is to create industry-leading products that improve the safety of rig operators and are gentler on the environment. But our global competition is heating-up. That's why it is critically important that we keep a constant flow of new, industry-changing ideas coming into our development pipeline. Sopheon's solutions help us identify the most promising concepts and turn them into revenue-generators for both the near and long term. We consider them an invaluable partner to our future success."

— Mike Francis
Director, Corporate Product Management
National Oilwell Varco (NOV)

Approved by the board on 19 March 2014 and signed on its behalf by:

Andy Michuda
CEO

19 March 2014

FINANCIAL REPORT

In this report, our CFO Arif Karimjee provides further analysis of Sopheon's financial results during 2013, our financial position at the end of the year, and an overview of key corporate developments.

Trading Performance

Revenues in 2013 were £13.3m, compared to £12.7m in 2012 and £10.3m in 2011. The overall shape of the business was 60% from North American customers, 32% from European customers and 8% from Asia, the Pacific Rim and the Middle East. Currency effects had limited impact.

Total license transactions including extension orders were 47 in 2013, the same number as 2012. For the second year in a row average revenue per transaction rose, which resulted in higher license revenues overall. License, maintenance and hosting revenues all recorded increases compared to the prior year; services revenue was moderately lower, after jumping almost 50 percent from 2011 to 2012. Taking the long view, the annualized average growth of our business since the launch of Accolade is 23 percent.

Business Mix

Over the years we have frequently referred to the sensitivity of our license results to individual sales events. Historically, our license performance in the fourth quarter has tended to be very strong and to provide a substantial boost to overall annual revenues but this did not happen in 2011 and 2012. After these two relatively slow years in this regard, 2013 showed a return to the traditional fourth quarter spike as indicated above. However, the overall performance reflected a greater share of extension business than in the prior year. In 2013 around 35 percent of the value of new business was derived from new customers (excluding maintenance and hosting renewals), compared to just over 50 percent in 2012, and 21 percent in 2011. We believe this bi-annual swing will recede as we continue to scale, but nevertheless we enter 2014 with renewed determination to focus dedicated resources on new customer acquisition especially in our more mature North American market. We are also embedding a more focused account management team, to ensure we maximize the opportunity to deliver value and grow revenue with each of our customers.

Attrition in the recurring revenue base was more than outweighed by the value of new contracts, which means that the overall base of recurring business now stands at approximately £4.8m, compared to £4.5m coming into 2013 and £4.1m coming into 2012. We recognize that this rising trend of recurring revenue is key to our progress and stability, and we are introducing new programs alongside our focus on account management to ensure that it is nurtured. The majority of recurring income is represented by maintenance services, but also includes hosting and cloud services. Overall, in 2013 our business delivered a 29:35:36 ratio of licenses, maintenance, and services respectively compared to 28:31:41 in the previous year.

Overall our reported gross margins are broadly flat at just under 70 percent (2012: 71 percent). A number of factors have held margins back in spite of the relatively lower proportion of services revenue. At the end of last year we reorganized our services organization, introducing a leadership tier, ancillary resources and service delivery teams to support the growth of the business. This was bedding in during 2013. Subcontractor activity remained high in the first half of the year, in part to support the transition into the new organizational structure. Finally the new releases have led to upgrade demand that has also put some strain on our support and services resources. We have created a dedicated upgrade team to bring focus to this area until the demand becomes less intense. Third-party software costs fell back to £0.4m (2012: £0.45m) reflecting lower OEM-sourced software sales.

Research and Development Expenditure

The gradual expansion of investment in product development since 2010 was further extended in the current year. This policy has resulted in actual expenditures in research and development being approximately £0.2m higher in 2013 than in 2012, on the back of a £0.4m rise the year before. The headline research and development reported in the income statement adjusts this basic expenditure for the effects of capitalization and amortization of development costs. The amount of 2013 research and development expenditure that met the criteria of IAS38 for capitalization was £1.1m (2012: £1.2m) offset by amortization charges of £1.1m (2012: £1m). These capitalized costs are largely attributable to the group's investment in the Accolade 8.3, 9.0 and forthcoming 9.1 releases. Headline research and development expenditures reported in the income statement rose to £3m from £2.7m in 2012. A further £0.1m of amortization and impairment charges relating to acquired intangible assets (2012: £0.3m) has been charged to distribution costs. Including these costs, the overall effect of capitalization, amortization and impairment was to increase costs reported in the income statement by £0.1m.

Sopheon remains committed to product leadership, with excellence in research and software development as a critical core competency of the group. Since 2001 Sopheon's reported research and development costs each year have been at least 20 percent of revenues reported in that year. For 2013, this metric was 23 percent (2012: 21 percent).

Operating Costs

Coming into 2012 Sopheon had 95 staff members, which had grown to 109 by the start of 2013. As noted elsewhere, we have continued to steadily expand resources in line with revenue growth, and the total staff count stood at 116 by the end of 2013. Offsetting the impact of expanded staffing, all cost areas were moderated by the fact that our performance in 2013 resulted in a lower bonus award being made than for 2012, to the members of the company that participate in the corporate bonus scheme. This scheme covers the majority of the group's executives and employees, with the principal exception of the sales teams for whom incentives are tied to individual or territory results. Bonus costs are allocated to the relevant categories of the income statement.

Detailed comments regarding professional services and research and development costs are noted above. After allowing for a £0.2m lower amortization and impairment charge noted above, sales and marketing costs were broadly stable at £4.0m in 2013 compared to £4.2m in 2012. This follows a spend increase of £0.6m from 2011 to 2012 reflecting higher staffing in both Europe and America.

Headline administration costs have risen by £0.07m, reflecting some resource expansion in IT and HR areas coupled with a rise in various external overheads including rent, insurance and legal costs. Aside from these changes, much of which reflects the expanding headcount, underlying administration costs and resourcing have remained broadly constant since 2007. These costs will continue to be managed tightly, but we anticipate increasing pressure in this area to accommodate growth.

Results

The combined effect of the revenue and cost performance discussed above has resulted in Sopheon's EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) performance for 2013 rising to £1.9m, from £1.8m 2012.

In common with other technology businesses, the board believes EBITDA provides a useful indicator of the underlying performance of our business by removing the effect on earnings of tax, capital spend and financing. EBITDA is further defined and reconciled to profit before tax in Note 4. Our calculation of EBITDA is stated after charging (i) share-based payments of £75,000 (2012: £38,000); (ii) impairment charges of acquired intangible assets of £46,000 (2012: £175,000); and (iii) exchange gains of £67,000 (2012: losses of £36,000) but excludes depreciation and amortization charges for the year of £1.3m (2012: £1.2m) and net finance costs of £0.3m (2012: £0.3m).

Including the effect of interest, depreciation and amortization, the group reported a profit before tax for the year of £341,000 (2012: £281,000). No tax has been provided. The profit per ordinary share was 4.7p (2012: 3.8p as adjusted for the share consolidation).

Balance Sheet and Corporate

Consolidated net assets at the end of the year stood at £3.5m (2012: £3.3m). Gross cash resources at 31 December 2013 amounted to £2.4m (2012: £3.9m). Approximately £0.7m was held in US Dollars, £1.6m in Euros and £0.1m in Sterling. During the year, the Group paid almost £1m to BlueCrest Capital Finance ("BlueCrest") in debt and interest payments.

Intangible assets stood at £3.4m (2012: £3.5m) at the end of the year. This includes (i) £2.8m being the net book value of capitalized research and development (2012: £2.8m) and (ii) an additional £0.6m (2012: £0.7m) being the net book value of Alignent intangible assets acquired in 2007. The carrying value of the Alignent intangibles has been impacted by both amortization and impairment charges. Further details are set forth in Note 14. A small amount of goodwill was also recognized on the acquisition of Sopheon GmbH. The effective acquisition date was 1 January 2013, on which date Sopheon GmbH (formerly known as Sopheon Vertriebs GmbH) had net assets of £13,000. Total acquisition consideration and costs amounted to £37,000 leading to goodwill of £24,000.

Facilities

Since 2007 the company had term-loan and a line of credit facilities provided by BlueCrest. The most recent term loan was established in 2010, for $3.5m with a 39-month term repayable in equal monthly installments through March 2014. This loan bore interest at 13 percent per annum. In addition to the term loan, BlueCrest provided a revolving line of credit secured against trade receivables, with a maximum capacity of $1.25m and an interest rate of 10.95 percent. Both facilities were due to expire in March 2014. BlueCrest decided to move away from debt funding and accordingly, further renewals were not available.

Accordingly, in February 2014 the group established new replacement facilities with the London branch of Silicon Valley Bank. These facilities comprise a term loan of $0.5m repayable in 36 equal monthly installments, and, reflecting the group's expanded receivables capacity, a $3m revolving line of credit. Both facilities bear interest at rates of 2.75 percent over Wall Street Prime, resulting in a current effective rate of 6 percent. The facilities are subject to covenants based on operating results, and in addition the drawdown mechanics and interest rates are subject to certain working capital ratios. These facilities have substantially lower financing costs than the ones they replace, reflecting the growing maturity of the Sopheon business.

To mitigate the exposures associated with BlueCrest withdrawing from debt markets, and to underpin the group's expansion strategy, in two tranches in 2009 and 2011, the company issued a total of £2m of convertible unsecured loan stock (the "Loan Stock") to a group of investors including key members of the board and senior management team. The Loan Stock has a maturity date of 31 January 2015 and a conversion price of £1 per share. The board has entered discussions with major holders of the Loan Stock with a view to extending maturity for a further two years.

As a final component of its financing structure, Sopheon has an equity line of credit facility with GEM Global Yield Fund Limited ("GEM") which was last renewed for a two-year term expiring on 23 December 2015. The facility, which has been renewed on a number of previous occasions, has been used to raise working capital once, in March 2004. This leaves 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.

Arif Karimjee
CFO

19 March 2014

DIRECTORS AND ADVISORS

Directors	Barry K. Mence	Executive Chairman
	Andrew L. Michuda	Chief Executive Officer
	Arif Karimjee ACA	Chief Financial Officer
	Stuart A. Silcock FCA	Non-executive Director
	Bernard P. F. Al	Non-executive Director
	Daniel Metzger	Non-executive Director

Secretary

Arif Karimjee

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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 or to consult benchmarking data.

Contracts

The service contract between the company and Mr. Michuda is terminable on up to three months' notice, with an additional twelve 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 to nine 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 changes year on year. Benefits primarily comprise healthcare insurance and similar expenses. Details of directors' interests in shares and options are set out in the Directors' Report.

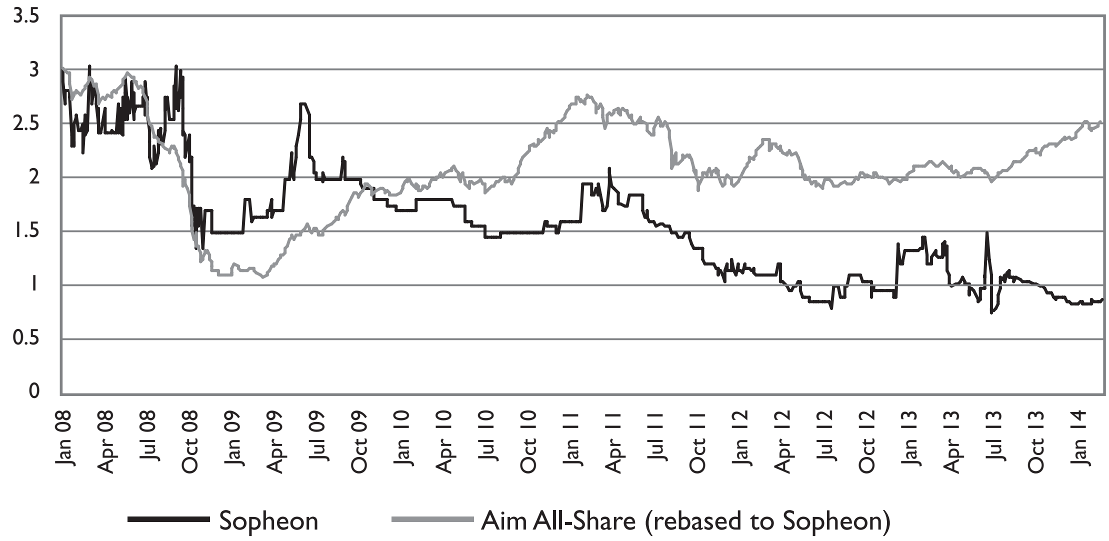
	Pay and Fees 2013 £	*Bonus 2013 £*	*Benefits 2013 £*	*Total 2013 £*	*Total 2012 £*
Executive Directors					
B.K. Mence	138,364	16,250	2,934	157,548	169,565
A.L. Michuda	170,893	21,498	6,668	199,059	209,402
A. Karimjee	115,734	10,700	2,276	128,710	133,842
Non-executive Directors					
S.A. Silcock	20,000	-	-	20,000	20,000
B.P.F. Al	20,000	-	-	20,000	20,000
D. Metzger	20,000	-	-	20,000	20,000
	484,991	48,448	11,878	545,317	572,809

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 2012 and 2013 these 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.

In addition to the amounts disclosed above, pension contributions are made to individual directors' personal pension schemes. During 2013 contributions of £4,875, £3,028 and £5,991 (2012: £4,875, £2,245 and £4,800) were paid respectively to the pension schemes of B.K. Mence, A.L. Michuda and A. Karimjee. Also, during the year the group paid fees of £24,000 for marketing services to OppSource Inc., a company of which Mr. Metzger is a shareholder and the CEO.

Performance Graph

The following graph shows the company's share price performance on AIM since January 2006, compared with the performance of the FTSE AIM All-Share index, which has been selected for this comparison as it is a broad-based index which the directors believe most closely reflects the performance of companies with similar characteristics as the company's. Historical share prices have been adjusted to reflect the net 20:1 share consolidation performed by the group during 2013.



Directors' 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*	
At 31 December	2013	2012	2013	2012	2013	2012
B.K. Mence	24,250	484,500	722,500	14,430,535	£640,000	£640,000
A.L. Michuda	199,880	3,997,594	8,000	155,188	£45,000	£45,000
A. Karimjee	57,500	1,150,000	4,500	87,667	£27,000	£27,000
S.A. Silcock	-	-	47,500	950,000	£200,000	£200,000
S.A. Silcock*	-	-	4,000	76,639	-	-
B.P.F. Al	1,125	25,000	32,500	650,000	£60,000	£60,000
D. Metzger	-	-	5,000	100,000	-	-

Holdings of ordinary shares and share options at 31 December 2012 relate to Ordinary shares of 5p each prior to the capital reorganization which took effect on 12 June 2013, full details of which appear in the Directors' Report. Holdings of ordinary shares and share options at 31 December 2013 relate to ordinary shares of 20p each following the capital reorganization. Of the 722,500 ordinary shares mentioned above B.K. Mence beneficially owns and is the registered holder of 507,000 ordinary shares. A further 115,500 ordinary shares are held by Inkberrow Limited, a company in which B.K. Mence is the majority shareholder 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 100,000 ordinary shares.

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

a) Options over 5p ordinary shares which expired or were cancelled during the year:

	Date of Grant	*Exercise Price*	*At 31 December 2012*	*Granted During Year*	*Expired During Year*	*At 31 December 2013*
B.K. Mence	15 April 2005	25.25p	62,500	-	(62,500)	-
B.K. Mence	3 May 2006	22p	100,000	-	(100,000)	-
B.K. Mence	29 June 2007	19p	100,000	-	(100,000)	-
B.K. Mence	1 April 2008	13.25p	100,000	-	(100,000)	-
A.L. Michuda	15 April 2005	25.25p	150,000	-	(150,000)	-
A.L. Michuda	3 May 2006	22p	100,000	-	(100,000)	-
A.L. Michuda	29 June 2007	19p	250,000	-	(250,000)	-
A.L. Michuda	1 April 2008	13.25p	250,000	-	(250,000)	-
A.L. Michuda	27 June 2008	14p	230,000	-	(230,000)	-
A. Karimjee	15 April 2005	25.25p	62,500	-	(62,500)	-
A. Karimjee	3 May 2006	22p	100,000	-	(100,000)	-
A. Karimjee	29 June 2007	19p	100,000	-	(100,000)	-
A. Karimjee	1 April 2008	13.25p	175,000	-	(175,000)	-
A. Karimjee	27 June 2008	14p	100,000	-	(100,000)	-

b) Options whose terms were adjusted as a result of the capital reorganization:

	Date of Grant	*Exercise Price*	*At 31 December 2012*	*Adjustment to Number of Options*	*Adjusted Exercise Price*	*At 31 December 2013*
B.K. Mence	29 September 2012	5.25p	122,500	(116,375)	105p	6,125
A.L. Michuda	27 August 2010	7.5p	250,000	(237,500)	150p	12,500
A.L. Michuda	29 September 2012	5.25p	2,767,594	(2,529,215)	105p	138,379
A. Karimjee	27 August 2010	7.5p	150,000	(142,500)	150p	7,500
A. Karimjee	29 September 2012	5.25p	462,500	(439,375)	105p	23,125
B.P.F. Al	29 September 2012	5.25p	25,000	(23,750)	105p	1,250

c) Options granted following the capital reorganization:

	Date of Grant	*Exercise Price*	*At 31 December 2012*	*Granted During Year*	*At 31 December 2013*
B.K. Mence	5 December 2013	85p	-	18,125	18,125
A.L. Michuda	5 December 2013	85p	-	49,000	49,000
A. Karimjee	5 December 2013	85p	-	26,875	26,875

None of the directors exercised any share options during the year. Vesting of all of the above share options which were outstanding at 31 December 2013 is in three equal tranches on the first, second and third anniversaries of the date of grant and all such options expire on the tenth anniversary of the date of grant. The mid-market price of Sopheon ordinary shares at 31 December 2013 was 82.5p. During the financial year the mid-market price of Sopheon ordinary shares (adjusted for the effects of the capital reorganization) ranged from 74.5p to 145p. 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.

Approved by the board on 19 March 2014 and signed on its behalf by:

Arif Karimjee
Director

DIRECTORS' REPORT

The group's principal activities during the year continued to focus on the provision of software, services and best practices that improve the return on investment of product development, within the rapidly maturing product lifecycle management (PLM) market. A review of the development of the business during the year is given in the Chairman's Statement on page 6 and the subsequent Strategic and Financial Reports. These also include reference to the group's future prospects and a review of the group's principal risks and uncertainties. The group's result for the year ended 31 December 2013 is a profit after tax of £341,000 (2012: £281,000). As in the prior year, 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 Alternext the company is not subject to the requirements of the UK Corporate Governance Code or the Netherlands Tabaksblat Committee. The board currently comprises three executive directors and three independent non-executive directors. Their biographies appear at the back 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 satisfied that the scale of the group's activities do not warrant the establishment of an internal audit function. 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. During 2013, all directors attended all meetings either in person or by conference call. 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 16.

Capital Reorganization and Reduction of Capital

On 1 May 2013 the company announced a proposed capital reorganization and reduction of capital. The proposals were put forward in order to deal with the accumulated historic trading losses, which include substantial product development expenditure over many years and the amortization and impairment of historic goodwill, and which would prevent the company from paying a dividend, should the directors decide to do so. At the same time the board was conscious that the company had a disproportionately large number of shareholders with relatively small holdings for a company of its size.

On 12 June 2013 the proposed capital reorganization and reduction of capital was approved by shareholders. To facilitate the reorganization, on 4 June 2013 the company issued 973 ordinary shares of 5p each for 4.62p per share in cash to the group's employee share ownership trust. On 17 June 2013 the 145,580,000 issued ordinary shares of 5p each were converted into 14,558 ordinary shares of £500 each. On 24 June 2013 the resultant 14,458 ordinary shares of £500 each were subdivided into 7,279,000 ordinary shares of £1 each and further subdivided into 7,279,000 ordinary shares of 20p each and 7,279,000 deferred shares of 80p each.

On 20 November 2013 the Court confirmed the reduction of capital. The 7,279,000 deferred shares of 80p each, amounting to £5,823,000, together with the whole of the company's share premium of £52,096,000 and capital redemption reserve of £2,884,000 were cancelled. The amounts arising from the reduction of capital were applied in extinguishing the accumulated losses of the company at 31 December 2012 of £57,646,000, with the balance of £3,157,000 being credited to a special reserve. The special reserve is a non-distributable reserve which may be used, amongst other purposes as approved by the court, for the same purposes as if it were a share premium reserve.

Post Balance Sheet Events

Details of post balance sheet events are shown in Note 29 to the financial statements.

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 are emerging and this means that Sopheon's growth may be erratic. The broad market for Sopheon's software products continues to emerge and evolve, and the timing and size of individual sales can have a substantial impact on performance in a given period. Sopheon has formalized processes for soliciting input to product strategy from analysts and customers, while also capitalizing on the group's leadership in key market areas. Sopheon also seeks to improve revenue predictability by introducing specific initiatives to balance efforts between new customer acquisition, and meeting the needs of existing customers.

Sopheon's prospects of achieving sustained and growing profitability are dependent on correctly aligning investments with sales. Sopheon's ability to continue to finance its investments at the optimal pace is dependent on the group maintaining profitability and sales growth alongside its investment strategy, or having appropriate financial resources in place to invest with confidence. Sopheon has sought to focus its resources on the sub-segments that it believes offer the best opportunities for growth. Sopheon management carefully monitors short- and medium-term financing requirements and has regularly raised additional funding resources to meet requirements.

Some of Sopheon's competitors and potential competitors have greater resources than Sopheon. Sopheon remains a relatively small organization by global standards. Its resources are small compared to those of many larger companies that are capable of developing competitive solutions and it can be 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's use of an agile development methodology with deep customer involvement is a key plank in this approach.

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 remained challenging. As a relatively small business, Sopheon is more exposed to this risk than some of its larger competitors. Sopheon management checks staff remuneration against recognized benchmarks and other industry sources, and seeks to maintain pay at competitive levels appropriate to its business.

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. Over the years Sopheon has built up a network of both resellers and consulting partners, however this has yet to mature and the revenues delivered through these relationships remain a relatively modest part of the total.

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 excellent development methodologies, its contract terms and insurance policies. Sopheon has never had any such claims.

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.

Substantial Shareholdings

The directors are aware of the following persons who as at 19 March 2014 were interested directly or indirectly in 3 percent or more of the company's issued ordinary shares:

Name	*No. of Ordinary Shares*	*% Issued Ordinary Shares*
B.K. Mence (director)	722,500	9.9
Rivomore Limited and Myrtledare Corp.	1,408,500	19.4

B.K. Mence also holds £640,000 nominal of 8 percent convertible loan stock. Rivomore Limited and Myrtledare Corp. also hold £640,000 nominal of 8 percent convertible loan stock. The convertible loan stock is convertible at the rate of 100p per ordinary share.

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

Approved by the board on 19 March 2014 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 and financial statements 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 and the rules of the NYSE Alternext Amsterdam Stock Exchange.

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 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate

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 2013 and of the group's profit 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.

Julian Frost (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London W1U 7EU
United Kingdom

19 March 2014

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 2013

	Notes	*2013* *£'000*	*2012* *£'000*
Revenue	3	13,276	12,663
Cost of sales		(4,011)	(3,612)
Gross profit		9,265	9,051
Sales and marketing expense		(4,032)	(4,238)
Research and development expense		(3,043)	(2,696)
Administrative expense		(1,583)	(1,510)
Operating profit		607	607
Finance income	8	17	9
Finance expense	9	(283)	(335)
Profit before tax		341	281
Income tax expense	10	-	-
Profit for the year	5	341	281
Earnings per share			
Basic and fully diluted (pence)	12	4.68p	3.86p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 *£'000*	*2012* *£'000*
Profit for the year	341	281
Other comprehensive expense		
Exchange differences on translation of foreign operations	(150)	(187)
Total comprehensive income for the year	191	94

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2013

	Notes	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Assets					
Non-current Assets					
Property, plant and equipment	13	197	197	-	-
Intangible assets	14	3,387	3,522	-	-
Investments in subsidiaries	15	-	-	6,119	6,119
Other receivable	16	12	12	-	-
Total non-current assets		3,596	3,731	6,119	6,119
Current Assets					
Trade and other receivables	17	5,485	3,959	1	-
Cash and cash equivalents	18	2,436	3,880	290	1,455
Total current assets		7,921	7,839	291	1,455
Total assets		11,517	11,570	6,410	7,574
Liabilities					
Current Liabilities					
Trade and other payables	19	2,119	2,386	380	363
Borrowings	20	915	1,136	-	-
Obligations under finance leases	21	-	1	-	-
Deferred revenue		2,995	2,662	-	-
Total current liabilities		6,029	6,185	380	363
Non-current Liabilities					
Borrowings	20	1,978	2,121	1,978	1,959
Total non-current liabilities		1,978	2,121	1,978	1,959
Total liabilities		8,007	8,306	2,358	2,322
Net assets		3,510	3,264	4,052	5,252
Equity					
Share capital	24	1,456	7,279	1,456	7,279
Capital reserves	25	3,400	55,619	3,400	55,619
Translation reserve		25	175	-	-
Retained losses		(1,371)	(59,809)	(804)	(57,646)
Total equity		3,510	3,264	4,052	5,252

Approved by the board and authorized for issue on 19 March 2014.

Barry K. Mence
Director

Arif Karimjee
Director

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Operating Activities					
Profit for the year		341	281	(1,257)	(534)
Adjustments for:					
Finance income		(17)	(9)	-	-
Finance costs		283	335	166	132
Depreciation of property, plant and equipment		144	98	-	-
Amortization and impairment of intangible assets		1,225	1,273	-	-
Share-based payment expense		75	38	75	38
Intra-group credits and charges		-	-	(307)	(290)
Provisions against intra-group loans		-	-	881	115
Operating cash flows before movements in working capital		2,051	2,016	(442)	(539)
(Increase) in receivables		(1,636)	(744)	(1)	-
Increase in payables		105	1,135	17	62
Net cash generated from/(used in) operating activities		520	2,407	(426)	(477)
Investing Activities					
Finance income		17	9	-	-
Purchases of property, plant and equipment		(145)	(136)	-	-
Development costs capitalized		(1,139)	(1,210)	-	-
Acquisition of subsidiary undertaking		(37)	-	-	-
Net cash acquired with subsidiary undertaking		44	-	-	-
Advance of loans to group companies		-	-	(1,800)	(1,915)
Repayment of loans by group companies		-	-	1,227	2,091
Net cash (used in)/generated from investing activities		(1,260)	(1,337)	(573)	176
Financing Activities					
Issue of convertible loan stock		-	1,150	-	1,150
Repayment of borrowings		(688)	(681)	-	-
Increase/(decrease) in lines of credit		287	(252)	-	-
Expenses of capital reorganization		(20)	-	(20)	-
Interest paid		(263)	(301)	(146)	(97)
Net cash from financing activities		(684)	(84)	(166)	1,053
Net (decrease)/increase in cash and cash equivalents		(1,424)	986	(1,165)	752
Cash and cash equivalents at the beginning of the year		3,880	2,941	1,455	703
Effect of foreign exchange rate changes		(20)	(47)	-	-
Cash and cash equivalents at the end of the year	18	2,436	3,880	290	1,455

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

Group

	Share Capital £'000	*Capital Reserves £'000*	*Translation Reserve £'000*	*Retained Losses £'000*	*Total £'000*
At 1 January 2012	7,279	55,803	362	(60,362)	3,082
Profit for the year	-	-	-	281	281
Exchange differences on translation of foreign operations	-	-	(187)	-	(187)
Total comprehensive income for the year	-	-	(187)	281	94
Recognition of share-based payments	-	38	-	-	38
Lapsing or expiry of share options	-	(272)	-	272	-
Equity element of convertible loan stock issued	-	50	-	-	50
At 1 January 2013	7,279	55,619	175	(59,809)	3,264
Profit for the year	-	-	-	341	341
Exchange differences on translation of foreign operations	-	-	(150)	-	(150)
Total comprehensive income for the year	-	-	(150)	341	191
Recognition of share-based payments	-	75	-	-	75
Lapsing or expiry of share options	-	(451)	-	451	-
Capital reorganization and reduction of capital	(5,823)	(51,843)	-	57,646	(20)
At 31 December 2013	1,456	3,400	25	(1,371)	3,510

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, and the credit arising from the reduction of capital which became effective in November 2013. Full details of the capital reserves and the capital reorganization and reduction of capital are set out in the Director's Report and in Notes 24 and 25.

Company

	Share Capital £'000	*Capital Reserves £'000*	*Retained Losses £'000*	*Total £'000*
At 1 January 2012	7,279	55,803	(57,384)	5,698
Loss and total comprehensive income for the year	-	-	(534)	(534)
Recognition of share-based payments	-	38	-	38
Lapsing or expiry of share options	-	(272)	272	-
Equity element of convertible loan stock issued	-	50	-	50
At 1 January 2013	7,279	55,619	(57,646)	5,252
Loss and total comprehensive income for the year	-	-	(1,255)	(1,255)
Recognition of share-based payments	-	75	-	75
Lapsing or expiry of share options	-	(451)	451	-
Capital reorganization and reduction of capital	(5,823)	(51,843)	57,646	(20)
At 31 December 2013	1,456	3,400	(804)	4,052

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 15. 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.

A number of new standards, amendments and interpretations to existing standards have been adopted by the group, but have not been listed, since they have no material impact on the financial statements. None of the new standards, amendments and interpretations in issue but not yet effective are expected to have a material effect on the 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. This assessment has included consideration of the forecast performance of the business for the foreseeable future, the cash and financing facilities available to the group, and the repayment terms in respect of the group's borrowings, including the potential of having to repay convertible loan stock in January 2015.

During 2013, the group achieved revenues of £13.3m and a profit before tax of £341,000. This represents an improvement compared to the previous year, which itself showed growth over 2011. Coming into 2013, the group's sales pipeline remains active, and accordingly, the directors remain positive about the prospects for the business.

Since 2007 the company had facilities provided by BlueCrest Capital Finance. These facilities were due to expire in March 2014. Accordingly, in February 2014 the group established new facilities with Silicon Valley Bank ("SVB"). These facilities comprise a term loan of $0.5m repayable in 36 equal monthly installments, and a $3m revolving line of credit. The facilities are subject to covenants based on operating results, and in addition the drawdown mechanics and interest rates are subject to certain working capital ratios. In addition, the group has a £2m convertible loan from key investors including members of the board and management. The current terms of the convertible loan call for repayment or conversion by 31 January 2015.

Notwithstanding the group's stable funding and trading position, the time-to-close and the order value of individual sales continues to vary considerably. When combined with the relatively low-volume and high-value nature of the group's business, these are factors which constrain the ability to accurately predict revenue performance. Furthermore, to meet its strategic objectives, the group has continued to expand staff levels. If sales fall short of expectations, there is a risk that the group's facilities may prove insufficient to cover both operating activities and the repayment of its debt facilities, which latter point could be due to the regular repayment of the SVB term loan, the possibility of not meeting SVB covenants or working capital ratios, or the possibility of having to repay the convertible loan stock in cash on 31 January 2015. In such circumstances, the group may be obliged to seek additional funding.

The directors have concluded that the circumstances set forth above represent 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 statements do 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, as set out within IFRS 3 Business Combinations for acquisitions made on or before 1 January 2010. No material business combinations have been entered into since that date. 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 on 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 within sales and marketing expense (in respect of customer relationships) and research and development expense (in respect of IPR and technology). 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. 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 are recognized on delivery, provided there is evidence of an arrangement and that no significant obligations remain owing to the customer in connection with such product sale. Such significant obligations could include giving a customer a right to return the software product without any preconditions, or if the group has failed to deliver an element of the software product by the balance sheet date.

Revenues relating to maintenance, hosting 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 the income statement 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). 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. 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 where there is no intention that these should be settled) are classified as equity and transferred to the group's translation reserve.

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 profit or loss, 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.

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

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

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.

Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred. Capitalization of a particular activity commences after proof of concept, requirements and functional concept stages are complete.

Capitalized development costs are amortized over the period over which the group expects to benefit from selling the product developed. This has been estimated to be four years from the date of code-finalization of the applicable software release. The amortization expense in respect of internally generated intangible assets is included in research and development costs.

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.

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. Estimates and judgments adopted for property plant and equipment, externally acquired intangible assets and internally generated intangible assets are dealt with in the accounting policy notes set forth above that relate to these areas. 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.

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 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 below), which are initially 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. Convertible Loan Stock

The host debt element of convertible loan stock is treated as a financial liability measured at amortized cost as further described above. The equity component of convertible loan stock arising on issue is reclassified from debt to capital reserves.

4. 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(f) the group considers its capital to comprise its ordinary share capital, special reserve and equity reserve less its accumulated retained loss.

3. SEGMENTAL ANALYSIS

All of the group's revenue in respect of the years ended 31 December 2013 and 2012 was derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Strategic and Financial Reports. 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. 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 arm's length basis.

Year ended 31 December 2013	*North America £'000*	*Europe £'000*	*Total £'000*
Income Statement			
External revenues – by location of operations	8,908	4,368	13,276
Operating profit/(loss) before interest and tax	724	(117)	607
Finance income	-	17	17
Finance expense	(116)	(167)	(283)
Profit/(loss) before tax	608	(267)	341
Depreciation, amortization and impairment charges	(1,332)	(37)	(1,369)
EBITDA	2,010	(80)	1,930
Balance Sheet			
Fixed asset additions	84	61	145
Capitalization of internally generated development costs	1,139	-	1,139
Total assets	8,040	3,477	11,517
Total liabilities	(4,324)	(3,683)	(8,007)

Year ended 31 December 2012	*North America £'000*	*Europe £'000*	*Total £'000*
Income Statement			
External revenues – by location of operations	7,792	4,871	12,663
Operating profit before interest and tax	139	469	607
Finance income	-	9	9
Finance expense	(201)	(134)	(335)
Profit before tax	(64)	345	281
Depreciation, amortization and impairment charges	(1,191)	(5)	(1,196)
EBITDA	1,330	473	1,803
Balance Sheet			
Fixed asset additions	117	19	136
Capitalization of internally generated development costs	1,210	-	1,210
Total assets	7,718	3,852	11,570
Total liabilities	(4,857)	(3,449)	(8,306)

One customer accounted for approximately 8 percent of the group's revenues in 2013. A different customer accounted for approximately 16 percent of the group's sales in 2012. In each case, the customer fell within the Europe segment based on location of operations.

External revenues in 2013 exclude inter-segmental revenues which amounted to £1,368,000 (2012: £1,245,000) for North America and £222,000 (2012: £215,000) for Europe.

Revenues attributable to customers in North America in 2013 amounted to £7,967,000 (2012: £7,084,000). Revenue attributable to customers in the rest of the world amounted to £5,309,000 (2012: £5,579,000) of which £4,302,000 (2012: £2,920,000) was attributable to customers in Europe.

4. EBITDA AND REVENUE VISIBILITY

EBITDA

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

	2013 *£'000*	*2012* *£'000*
Profit for the year after tax	341	281
Interest payable	283	335
Interest receivable	(17)	(9)
Amortization of intangible assets	1,179	1,098
Depreciation of property, plant and equipment	144	98
Income tax expense	-	-
EBITDA	1,930	1,803

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. PROFIT FOR THE YEAR

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

	2013 *£'000*	*2012* *£'000*
Continuing Operations		
Net foreign exchange (gains)/losses	(67)	36
Research and development costs (excluding amortization)	1,894	1,698
Amortization of intangible assets	1,179	1,098
Impairment of intangible assets	46	175
Depreciation of property, plant and equipment	144	98
Operating lease rentals – land and buildings	317	319
Operating lease rentals – other	76	74

Net foreign exchange gains or losses 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

During the year the group obtained the following services from its auditors and associated firms. Fees for the audit of subsidiaries pursuant to legislation are not segregated from those for the group and are included in the amounts disclosed.

	2013 *£'000*	*2012* *£'000*
Audit of the financial statements of the group	53	50
Review of interim financial information	10	10
Audit of US pension plan	5	5
Tax services	14	24

7. STAFF COSTS

	2013 £'000	2012 £'000
Wages and salaries	7,453	6,784
Social security costs	678	539
Pension contributions	155	134
Employee benefits expense	515	439
	8,801	7,896

Included within the above are staff costs capitalized as development expenditure amounting to £1,139,000 (2012: £1,210,000). Included within wages and salaries are bonus and sales commission costs amounting to £602,000 (2012: £833,000).

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

	2013 Number	2012 Number
Development and operations	78	70
Sales and management	36	32
	114	102

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

The remuneration of all directors was as follows:

	2013 £'000	2012 £'000
Fees and emoluments	545	573
Pension contributions	14	12
	559	585

No director exercised share options during the year (2012: None). Pension contributions are to personal defined contribution schemes and have been made for three directors (2012: three) who served during the year.

Full details of directors' remuneration are disclosed in the Report on Directors' Remuneration on page 16.

8. FINANCE INCOME

	2013 £'000	2012 £'000
Income on financial assets measured at amortized cost		
Interest income on bank deposits	17	9

9. FINANCE EXPENSE

	2013 £'000	2012 £'000
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(283)	(335)

10. INCOME TAX EXPENSE

	2013 £'000	2012 £'000
Income tax expense for the year – current tax	-	-

The charge for the year can be reconciled to the accounting profit as follows:

	2013 £'000	2012 £'000
Profit before tax	341	281
Tax charge at the UK corporation tax rate of 23.25% (2012: 24.5%)	(79)	(69)
Adjustment for differing rates of corporate taxation in overseas jurisdictions	(61)	55
Tax effect of expenses that are not deductible in determining taxable losses	(73)	(99)
Temporary differences arising from the capitalization, amortization and transfer of development investments	147	208
Losses for the year not relievable against current tax	-	(95)
Utilization of prior year losses	66	-
Income tax expense for the year	-	-

There is no tax arising on other comprehensive income.

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:

	2013 £'000	2012 £'000
Shortfall of tax depreciation compared to book depreciation	136	165
Effect of timing differences arising from capitalization of internally generated development costs	(969)	(994)
Unrelieved trading losses	13,050	13,448
Unrecognized deferred tax asset	12,217	12,619

At 31 December 2013, tax losses estimated at £43m were available to carry forward by the Sopheon group, arising from historic losses incurred. These losses represent a potential deferred tax asset of £12.9m, based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of £7.0m (representing £2.4m of the potential deferred tax asset) represents pre-acquisition tax losses of Sopheon Corporation (Minnesota) 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 2013 was £1,255,000 (2012: loss of £534,000). Advantage has been taken of Section 408 of the Companies Act 2006 not to present an income statement for the parent company.

12. EARNINGS PER SHARE

	2013	*2012*
	£'000	*£'000*
Profit after tax	341	281

	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,279	7,279

The weighted average number of shares in issue for 2012 has been adjusted to reflect the capital reorganization which became effective on 12 June 2013, full details of which are set out in the Directors' Report.

The profit attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are the same as those used for calculating the basic earnings per ordinary share in both 2013 and 2012. This is (i) because the exercise of conversion rights attaching to the convertible loan stock (details of which are set out in Note 20), would have the effect in each year of increasing earnings per ordinary share (by virtue of the saving of loan stock interest, which would otherwise be payable) and are therefore not dilutive; and (ii) because the warrants to subscribe for 25,138 ordinary shares and the 603,189 share options to subscribe for ordinary shares (details of which are set out in Notes 24 and 28), either have a strike price above the average market price for the year, or have an immaterial impact.

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment £'000*	*Furniture & Fittings £'000*	*Total £'000*
Cost			
At 1 January 2012	808	186	994
Additions	127	9	136
Exchange differences	(35)	(8)	(43)
At 1 January 2013	900	187	1,087
Additions	106	39	145
Exchange differences	(21)	(3)	(24)
At 31 December 2013	985	223	1,208
Accumulated Depreciation			
At 1 January 2012	674	154	828
Depreciation charge for the year	91	7	98
Exchange differences	(29)	(7)	(36)
At 1 January 2013	736	154	890
Depreciation charge for the year	122	22	144
Exchange differences	(20)	(3)	(23)
At 31 December 2013	838	173	1,011
Carrying Amount			
At 31 December 2013	147	50	197
At 31 December 2012	164	33	197

The net carrying amount of property, plant and equipment includes £Nil (2012: £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) £'000	*Technology and IPR £'000*	*Customer Relationships £'000*	*Goodwill £'000*	*Total £'000*
Cost					
At 1 January 2012	7,488	902	1,691	635	10,716
Additions (internally generated)	1,210	-	-	-	1,210
Exchange differences	(348)	(40)	(74)	(27)	(489)
At 1 January 2013	8,350	862	1,617	608	11,437
Additions (internally generated)	1,139	-	-	-	1,139
Acquisition in 2013	-	-	-	24	24
Exchange differences	(239)	(19)	(35)	(13)	(306)
At 31 December 2013	9,250	843	1,582	619	12,294
Amortization					
At 1 January 2012	4,736	631	783	-	6,150
Charge for the year	998	-	100	-	1,098
Exchange differences	(224)	(28)	(35)	-	(287)
At 1 January 2012	4,736	631	783	-	6,150
Charge for the year	998	-	100	-	1,098
Exchange differences	(224)	(28)	(35)	-	(287)
At 1 January 2013	5,510	603	848	-	6,961
Charge for the year	1,149	-	30	-	1,179
Exchange differences	(177)	(13)	(20)	-	(210)
At 31 December 2013	6,482	590	858	-	7,930
Accumulated Impairment Losses					
At 1 January 2012	-	271	547	-	818
Impairment losses in year	-	-	175	-	175
Exchange differences	-	(12)	(27)	-	(39)
At 1 January 2013	-	259	695	-	954
Impairment losses in year	-	-	46	-	46
Exchange differences	-	(6)	(17)	-	(23)
At 31 December 2013	-	253	724	-	977
Carrying Amount					
At 31 December 2013	2,768	-	-	619	3,387
At 31 December 2012	2,840	-	74	608	3,522

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, were 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. The recoverable amount of the goodwill can be underpinned on a value in use basis by the expected performance of the group's operating segments, treated as a single cash generating unit.

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 three years, and thereafter for an indefinite period at a growth assumption of 3 percent. Sensitivity analysis performed on these projections demonstrates significant valuation headroom above the carrying value of goodwill even if the growth rate for the four year period is reduced to 5 percent. The annualized average growth of the business since the launch of the group's core Accolade solution is over 20 percent. The same discount and growth rates were used for the valuation conducted in respect of 2012.

The initial valuation of the intangible assets acquired with Alignent relating to technology and IPR, and to customer relationships, used an income-based approach. The recurring income from certain acquired Alignent customer base has or is expected to fall, due to a mix of factors including the conversion of certain rental licenses to perpetual, changes in rental levels, and cancellations. The overall reduction exceeds 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 customer relationships of £46,000 (2012: £175,000) and which reduce the carrying value to nil. All other assumptions of the original valuation have been retained in the impairment review.

Company
The company has no intangible assets.

15. INVESTMENT IN SUBSIDIARIES

At 31 December 2012 and at 31 December 2013

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

Details of the company's subsidiaries at 31 December 2013 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. and Sopheon Corporation, Minnesota, USA are held by Sopheon Corporation, Delaware, USA. The share capital of Sopheon Corporation, Delaware, USA and Sopheon GmbH are held by Sopheon NV.

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

16. OTHER RECEIVABLE

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade receivables	4,817	3,547	-	-
Other receivables	13	4	1	-
Total receivables	4,830	3,551	1	-
Prepayments	346	290	-	-
Accrued income	309	118	-	-
	5,485	3,959	1	-

Trade and other receivables are stated net of allowances totaling £Nil (2012: £24,000) 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 £40,879,000 (2012: £40,015,000) 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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash at bank	1,568	3,129	290	1,398
Short-term bank deposits	868	751	-	57
	2,436	3,880	290	1,455

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 £24,000 (2012: £23,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2013	*2012*	*2013*	*2012*
	£'000	*£'000*	*£'000*	*£'000*
Trade payables	550	717	50	29
Other payables	154	113	102	107
Tax and social security costs	207	231	-	-
Accruals	1,208	1,325	228	227
	2,119	2,386	380	363

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	
	2013	*2012*	*2013*	*2012*
	£'000	*£'000*	*£'000*	*£'000*
Current Loans and Borrowings				
Line of credit	756	495	-	-
Loan notes (current portion)	159	641	-	-
Total current loans and borrowings	915	1,136	-	-
Non-current Loans and Borrowings				
Loan notes	-	162	-	-
8% convertible loan stock 2015	1,978	1,959	1,978	1,959
Total non-current loans and borrowings	1,978	2,121	1,978	1,959
Total loans and borrowings	2,893	3,257	1,978	1,959

a) Line of Credit

The line of credit is denominated in US Dollars and bears interest at a variable rate currently 10.95 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 2013 amounted to $5,682,000 (£3,437,000) (2012: $3,865,000 (£2,391,000)). At 31 December 2013 $1,250,000 (£756,000) was drawn down under the line of credit facility (2012: $800,000 (£495,000)).

b) Loan Notes

The loan notes are denominated in US Dollars and represent mezzanine loan finance provided by BlueCrest and are repayable in monthly installments of $90,000, together with interest at a fixed rate of 13 percent per annum, over the period from December 2010 to March 2014.

The mezzanine loan and the line of credit, which is also provided by BlueCrest, 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 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 2015

The convertible loan stock is denominated in Sterling and bears interest at a fixed rate of 8 percent per annum. The loan stock was issued at par in a nominal amount of £850,000 on 1 October 2009. On 23 August 2012 the company made a further issue of loan stock in a nominal amount of £1,150,000. Following this issue, the aggregate liability at maturity of the loan stock increased from £850,000 to £2,000,000, the conversion price was 5p per ordinary share.

Following the capital reorganization approved by shareholders on 12 June 2013, and the reduction of capital which was confirmed by the Court on 20 November 2013, the conversion terms were amended in accordance with the provisions of the loan stock, such that the loan stock is henceforward convertible into ordinary shares of 20p each of the company at a rate of 100p per ordinary share.

Holders may convert the loan stock into Sopheon ordinary shares at any time up to the extended maturity date of 31 January 2015, and any loan stock not converted is to be repaid at par on that date.

21. OBLIGATIONS UNDER FINANCE LEASES

The present value of future lease payments is analyzed as:

	Group		*Company*	
	2013 £'000	*2012 £'000*	*2013 £'000*	*2012 £'000*
Current liabilities	-	1	-	-
Non-current liabilities	-	-	-	-
	-	1	-	-

The group leases a telephone system with a net carrying value at 31 December 2013 of £Nil (2012: £1,000).

Future lease payments are due as follows:

At 31 December 2013	*Minimum Lease Payments £'000*	*Interest £'000*	*Present Value £'000*
Within one year	-	-	-
Due in one to five years	-	-	-
	-	-	-

At 31 December 2012	*Minimum Lease Payments £'000*	*Interest £'000*	*Present Value £'000*
Within one year	1	-	1
Due in one to five years	-	-	-
	1	-	1

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 2013 £'000	*Other 2013 £'000*	*Land & Buildings 2012 £'000*	*Other 2012 £'000*
Due within one year	325	60	337	54
Due after one year and within five years	238	90	74	76
	563	150	411	130

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.

1. Financial Assets

		Group		*Company*	
	Notes	*2013 £'000*	*2012 £'000*	*2013 £'000*	*2012 £'000*
Current Financial Assets					
Trade receivables	17	4,817	3,547	-	-
Other receivables	17	13	4	1	-
Accrued income	17	309	118	-	-
Cash and cash equivalents	18	2,436	3,880	290	1,455
		7,575	7,549	291	1,455
Non-current Financial Assets					
Other receivable	16	12	12	-	-

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

2. Financial Liabilities

	Notes	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Current Financial Liabilities					
Trade payables	19	550	717	50	29
Other payables	19	154	113	102	107
Accruals	19	1,208	1,325	228	227
Loans and borrowings	20	915	1,136	-	-
Obligations under finance lease	21	-	1	-	-
		2,827	3,292	380	363
Non-current Financial Liabilities					
Loans and borrowings	20	-	162	-	-
8% convertible loan stock 2015	20	1,978	1,959	1,978	1,959
		1,978	2,121	1,978	1,959
		4,805	5,413	2,358	2,322

As set out in Note 20 the carrying value of the instrument at the balance sheet date reflects a deduction for the reclassification of the fair value of conversion rights into equity.

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
- Convertible loan stock

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:

a) 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 2013, the largest single customer accounted for 8 percent of group revenues (2012:16 percent, different customer).

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, Rabobank Amsterdam, and Silicon Valley Bank.

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 2013 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 where invoiced, and 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 2013	4,817	3,669	295	853
At 31 December 2012	3,547	2,843	382	322

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:

	2013			*2012*		
	£'000 Gross Value	*£'000 Provision*	*£'000 Carrying Value*	*£'000 Gross Value*	*£'000 Provision*	*£'000 Carrying Value*
Trade receivables						
North America	3,438	-	3,438	2,391	-	2,391
Europe	1,379	-	1,379	1,180	24	1,156
	4,817		4,817	3,571	24	3,547

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:

	2013 £'000	*2012 £'000*
Opening balance	24	30
Utilization of provisions	(24)	(30)
New provisions	-	24
Closing balance	-	24

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, US and European banking institutions.

b) Liquidity Risk

Liquidity risk arises from the group's management of working capital, and more particularly its ability to be consistently cash generative after 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 2013	*On Demand or Within Six Months £'000*	*Within One Year £'000*	*Within Two Years £'000*	*Within Five Years £'000*	*Total £'000*
Trade and other payables	2,119	-	-	-	2,119
Line of credit	756	-	-	-	756
Loan notes	159	-	-	-	159
Future interest – loan notes	4	-	-	-	4
Convertible loan stock	-	-	2,000	-	2,000
Future interest – convertible loan stock	80	80	14	-	174
Total financial liabilities	3,118	80	2,014	-	5,212

At 31 December 2012	*On Demand or Within Six Months £'000*	*Within One Year £'000*	*Within Two Years £'000*	*Within Five Years £'000*	*Total £'000*
Trade and other payables	2,386	-	-	-	2,386
Line of credit	495	-	-	-	495
Loan notes	333	333	166	-	832
Future interest – loan notes	45	23	4	-	72
Convertible loan stock	-	-	-	2,000	2,000
Future interest – convertible loan stock	80	80	160	14	334
Finance lease	1	-	-	-	1
Total financial liabilities	3,340	436	330	2,014	6,120

Company

At 31 December 2013	*On Demand or Within Six Months £'000*	*Within One Year £'000*	*Within Two Years £'000*	*Within Five Years £'000*	*Total £'000*
Trade and other payables	380	-	-	-	380
Convertible loan stock	-	-	2,000	-	2,000
Future interest – convertible loan stock	80	80	14	-	174
Total financial liabilities	460	80	2,014	-	2,554

At 31 December 2012	*On Demand or Within Six Months £'000*	*Within One Year £'000*	*Within Two Years £'000*	*Within Five Years £'000*	*Total £'000*
Trade and other payables	363	-	-	-	363
Convertible loan stock	-	-	-	2,000	2,000
Future interest – convertible loan stock	80	80	160	14	334
Total financial liabilities	443	80	160	2,014	2,697

c) 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.

d) Interest Rate Risk

The group's fixed rate interest bearing liabilities comprised loan notes with a carrying value at 31 December 2013 of £159,000, which bore a fixed interest rate of 13 percent, and convertible loan stock with a nominal value of £2,000,000, which bears a fixed interest rate of 8 percent. These liabilities do not give rise to interest rate risk. The group also had a line of credit, on which £756,000 was outstanding at 31 December 2013, and which bore a minimum interest rate of 10.95 percent which was subject to increase depending on movements in the Wall Street Journal Prime Rate. Should this rate have increased 1 percent the annualized effect would have been to increase 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 31 December 2013 was £868,000. During 2013 interest rates on money market deposits averaged at or below 0.5 percent in respect of US Dollar, Euro and Sterling deposits. The annualized effect of a movement of 0.5 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 had no interest bearing bank deposits at the balance sheet date.

e) 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 2013

	US Dollars £'000	Sterling £'000	Euro £'000	Total £'000
Financial Assets				
Receivables and accrued income	3,622	224	1,305	5,151
Cash and cash equivalents	774	90	1,572	2,436
Total financial assets	4,396	314	2,877	7,587
Financial Liabilities				
Trade and other payables	1,001	344	567	1,912
Borrowings	915	2,000	-	2,915
Total financial liabilities	1,916	2,344	567	4,827

At 31 December 2012

	US Dollars £'000	Sterling £'000	Euro £'000	Total £'000
Financial Assets				
Receivables and accrued income	2,402	356	923	3,681
Cash and cash equivalents	1,640	1,638	602	3,880
Total financial assets	4,042	1,994	1,525	7,561
Financial Liabilities				
Trade and other payables	1,283	337	535	2,155
Borrowings	1,299	2,000	-	3,299
Total financial liabilities	2,582	2,337	535	5,454

The amount shown in respect of Sterling borrowings at December 31, 2013 represents the nominal value of the instrument. As set out in Note 20 the carrying value of the instrument at the balance sheet date reflects a deduction for the reclassification of the fair value of conversion rights into equity.

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 profit 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.

	2013	*2012*	*2013*	*2012*
	(Increase) (Decrease) in Profit After Tax	*(Increase) (Decrease) in Profit After Tax*	*Effect on Exchange Differences on Translation of Assets and Liabilities of Foreign Operations*	
	£'000	*£'000*	*£'000*	*£'000*
Weakening of US Dollar by 10c	7	167	(220)	(193)
Strengthening of US Dollar by 10c	(9)	(76)	247	214
Weakening of Euro by 10c	(58)	(77)	(79)	(5)
Strengthening of Euro by 10c	69	91	74	7

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 profit after tax of the company. It is based on the company's assets and liabilities at the relevant balance sheet date.

	2013	*2012*
	(Increase)/Decrease in Profit After Tax	
	£'000	*£'000*
Weakening of US Dollar by 10c	(10)	(18)
Strengthening of US Dollar by 10c	11	21
Weakening of Euro by 10c	(5)	(46)
Strengthening of Euro by 10c	6	54

f) Capital

The group considers its capital to comprise its share capital and its special reserve and equity reserve 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 share capital is all equity capital and is summarized in Note 24.

24. SHARE CAPITAL

Issued and Fully Paid	*2013 Number*	*2013 £'000*	*2012 Number*	*2012 £'000*
Ordinary shares of 5p each	-	-	145,579,027	7,279
Ordinary shares of 20p each	7,279,000	1,456	-	-

On 12 June 2013 shareholders approved a capital reorganization and reduction of capital, details of which are set out in the Directors' Report.

Throughout the year company has had in issue one class of ordinary shares, which have at no time carried any right to fixed income.

At 31 December 2013 the company had outstanding 25,138 warrants to subscribe for ordinary shares of 20p each at a price of 400p per share (2012: 502,790 warrants to subscribe for ordinary shares of 5p each 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. The warrants have a 10 year life.

25. CAPITAL RESERVES

Group	*Share Premium £'000*	*Capital Redemption Reserve £'000*	*Equity Reserve £'000*	*Special Reserve £'000*	*Total £'000*
At 1 January 2012	52,096	2884	823	-	55,803
Recognition of share-based payments	-	-	38	-	38
Lapsing or expiry of share options	-	-	(272)	-	(272)
Equity component of convertible loan stock	-	50	-	5	0
At 1 January 2013	52,096	2,884	639	-	55,619
Recognition of share-based payments	-	-	75	- 7	5
Lapsing or expiry of share options	-	-	(451)	-	(451)
Reduction of capital	(52,096)	(2,884)	-	3,157	(51,823)
Expenses of capital reorganization	-	-	-	(20)	(20)
At 31 December 2013	-	-	263	3,137	3,400

Company	*Share Premium £'000*	*Capital Redemption Reserve £'000*	*Equity Reserve £'000*	*Special Reserve £'000*	*Total £'000*
At 1 January 2012	52,096	2884	823	-	55,803
Recognition of share-based payments	-	-	38	-	38
Lapsing or expiry of share options	-	-	(272)	-	(272)
Equity component of convertible loan stock	-	-	50	-	50
At 1 January 2013	52,096	2,884	639	-	55,619
Recognition of share-based payments	-	-	75	-	75
Lapsing or expiry of share options	-	-	(451)	-	(451)
Reduction of capital	(52,096)	(2,884)	-	3,157	(51,823)
Expenses of capital reorganization	-	-	-	(20)	(20)
At 31 December 2013	-	-	263	3,137	3,400

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

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

The equity reserve comprises the fair value of share-based payments to employees pursuant to the group's share option schemes, the fair value of warrants to subscribe for Sopheon shares issued to BlueCrest Capital Finance LLC, and the equity component of the group's 8 percent convertible loan stock 2015.

In addition, investment by the group's employee share ownership trust (the "Esot") in the company's shares is deducted from equity in the consolidated balance sheet as if they were treasury shares, by way of deduction from the equity reserve. At 31 December 2013, the Esot held 7,000 ordinary shares of 20p each (2012: 185,244 ordinary shares of 5p each) in the company, which represents 0.1 percent (2012: 0.1 percent) of the company's ordinary share capital. The equity reserve includes a deduction of £10,000 (2012: £11,000) which represents the cost of these shares held by the Esot at 31 December 2013.

The purpose of the Esot is to facilitate the company's policy of offering participation in the ownership of its shares to employees for reward and incentive purposes. At 31 December 2013 and at 31 December 2012, no shares held by the Esot were under option or had been gifted to any employees. Arrangements for the distribution of benefits to employees will be made at the Esot's discretion in such manner as the Esot considers appropriate. Administration costs of the Esot are accounted for in the profit and loss account of the company as they are incurred.

On 20 November 2013 the Court confirmed the cancellation of the whole of the company's share premium and capital redemption reserves, as part of the capital reorganization approved by shareholders of the company on 12 June 2013 full details of which appear in the Directors' Report.

The special reserve represents the net reserve arising from the cancellation the company's 7,279,000 deferred shares of 80p each referred to in Note 24, amounting to £5,823,000, the cancellation of share premium amounting to £52,096,000 and of the capital redemption reserve amounting to £2,884,000, and after offsetting £57,646,000 against accumulated losses. The special reserve is a non-distributable reserve which may be used, amongst other purposes as approved by the court, for the same purposes as if it were a share premium reserve.

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 £155,000 (2012: £134,000) 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 executive directors and members of the group's operating and executive management committees during the year was as follows:

	2013 *£'000*	*2012* *£'000*
Emoluments and benefits	1,336	1,111
Pension contributions	35	30
Share-based payments	59	27
	1,430	1,168

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:

	2013 *£'000*	*2012* *£'000*
Net amounts borrowed/(repaid) by subsidiaries by way of interest-free loans	864	(176)
Net management charges to subsidiaries	307	290

The amounts owed by subsidiary companies to the parent company at 31 December 2013 totaled £40,879,000 (2012: £40,015,000). A full provision has been made against these amounts, which are unsecured and are subordinated to the claims of all other creditors.

During 2013 and 2012 the company granted share options to employees of subsidiary companies. Details of grants of share options are disclosed in Note 28.

Other Related Party Transactions

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

Following the capital reorganization which became effective on 12 June 2013, the terms of all share options outstanding on that date were amended in accordance with the terms of the respective schemes.

Details of the share options outstanding during the 2012 and 2013 are as follows:

	Number of Share Options	*Weighted Average Exercise Price £*
Share options outstanding at 1 January 2012	13,193,054	0.16
Options granted during 2012	5,465,598	0.05
Options lapsed, expired or cancelled during 2012	(6,478,972)	0.17
Outstanding at 1 January 2013	12,179,680	0.10
Options granted prior to capital reorganization	1,117,500	0.05
Options lapsed prior to capital reorganization	(1,128,300)	0.11
Share options outstanding immediately prior to capital reorganization becoming effective	12,168,880	0.11
Share options outstanding immediately following the capital reorganization becoming effective	608,440	2.11
Share options granted subsequent to capital reorganization	233,704	0.85
Options lapsed or cancelled subsequent to capital reorganization	(231,204)	3.65
Outstanding at 31 December 2013	610,940	1.04
Exercisable at 31 December 2013	157,095	1.27
Exercisable at 31 December 2012	5,815,545	0.15

No share options were exercised during the year (2012: Nil). The options outstanding at the end of the year have a weighted average contractual life of 9.0 years (2012: 6.8 years).

During the year share options were granted on 18 April 2013 (prior to the capital reorganization) when the exercise price of options granted was 5.25p and the estimated fair value was 3.11p and on 5 December 2013 (after the capital reorganization) when the exercise price of options granted was 85p and the estimated fair value was 50.33p. During 2012 share options were granted on 20 April 2012, when the exercise price of options granted was 5p and the estimated fair value was 2.98p and on 29 September 2012, when the exercise price of options granted was 5.25p and the estimated fair value was 3.11p.

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

Date of Grant	*December 2013*	*April 2013*	*September 2012*	*April 2012*
Share price at time of grant	85p	5.25p	5.25p	5p
Exercise price	85p	5.25p	5.25p	5p
Expected volatility	40%	40%	40%	40%
Risk-free rate	5%	5%	5%	5%
Expected dividend yield	Nil	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 expected contractual life of the options used was ten years. Expected volatility was determined by reference to the historic volatility of the company's share price in the period before the date of grant.

29. POST BALANCE SHEET EVENTS

In February 2014 the Group established new debt facilities with Silicon Valley Bank. These facilities comprise a term loan of $0.5m repayable in 36 equal monthly installments, and a $3m revolving line of credit. Both facilities bear interest at rates of 2.75 percent over Wall Street Prime, resulting in a current effective rate of 6 percent. The facilities are subject to covenants based on operating results, and in addition the drawdown mechanics and interest rates are subject to certain working capital ratios.

DIRECTORS

Barry Mence, 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, Barry was the major shareholder and group managing director of the Rendeck Group of Companies, a software and services group based in the Netherlands.

Andrew Michuda, Chief Executive Officer. Andrew (Andy) Michuda was appointed chief executive officer of Sopheon in 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. Prior to joining Sopheon, Andy held senior leadership positions at Control Data.

Arif Karimjee, ACA, Chief Financial Officer. Arif Karimjee joined Sopheon as chief financial officer in 2000. Arif served as an auditor and consultant with Ernst & Young in the United Kingdom and Belgium from 1988 until joining Sopheon.

Stuart Silcock, FCA, Non-Executive Director. Stuart Silcock has served as a director of Sopheon since its inception in 1993 when he was one of the founding members of the company. Since 1982 Stuart has been a principal Partner in Lawford & Co chartered accountants. Stuart was a non-executive director of Brown and Jackson plc for four years from 2001 and has held a number of other directorships in the United Kingdom.

Bernard Al, Non-Executive Director. Bernard Al was appointed as director of Sopheon in 2001. He is a former chief executive officer of Wolters Kluwer in the Netherlands and has a background in linguistics. Bernard is also the non-executive chairman of CB-Logistics in the Netherlands and he has held a number of other non-executive positions in international companies during the last ten years.

Daniel Metzger, Non-Executive Director. Dan Metzger was until 1998 Lawson Software's EVP Marketing, where he helped the company grow its revenues from $13m to $400m. Since then he has held similar roles at Parametric Technologies, and also at auxilium and nQuire, subsequently sold to Parametric and Siebel respectively. As a strategy consultant, Dan has helped numerous technology companies reach and exceed their growth objectives. Dan is currently CEO of Oppsource Inc.

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