ANNUAL REPORT 2014

Sopheon

Your Partner for Innovation Performance™

Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation.

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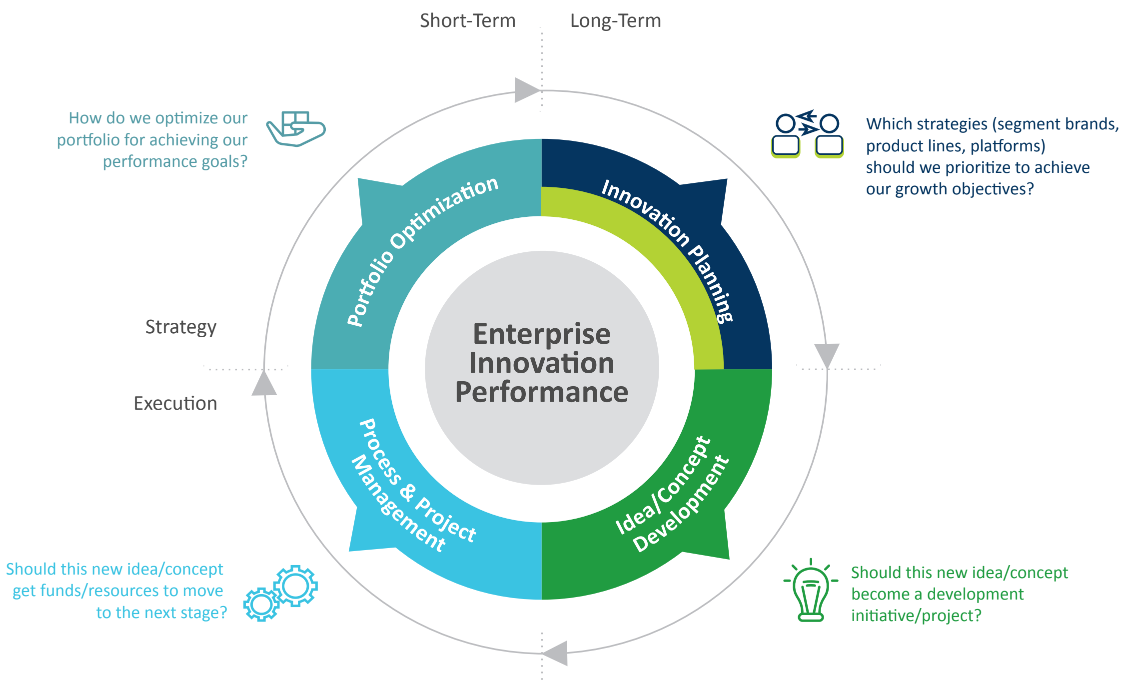
Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation.

We do this by providing **software, services and best practices** that help complex, global enterprises to increase the return on their R&D and broader innovation investments. We provide transparency and insight to improve decision making through an **integrated innovation** platform which drives performance across 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 life cycle, ensuring market success.

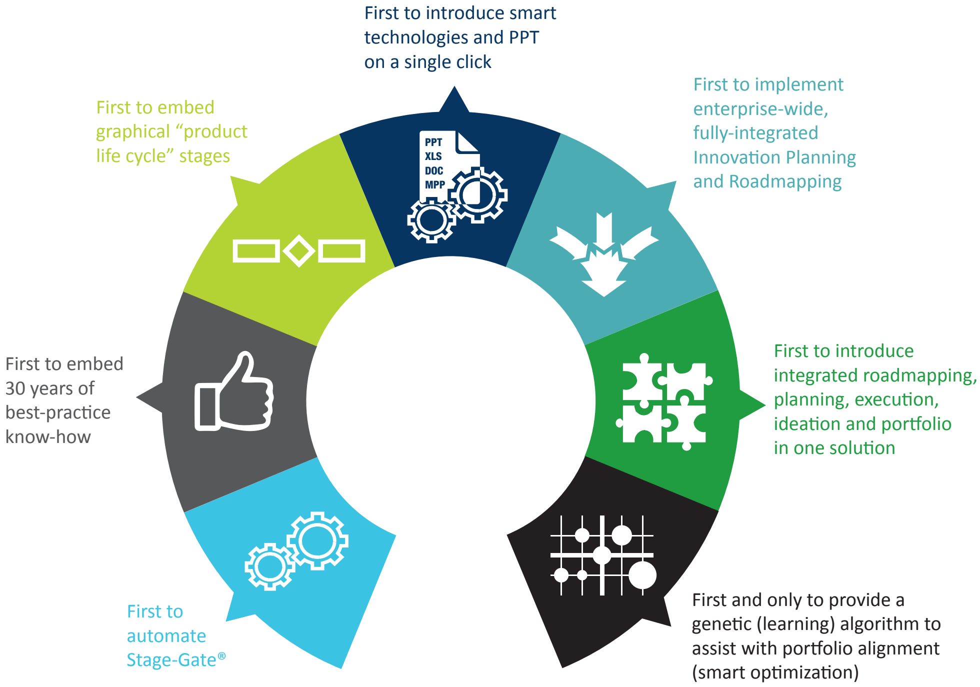
Conventional Approach	Sopheon's Approach
Project Orientation	Strategy Orientation
Focus on Rolling Up Projects	Focus on Achieving Corporate Strategy



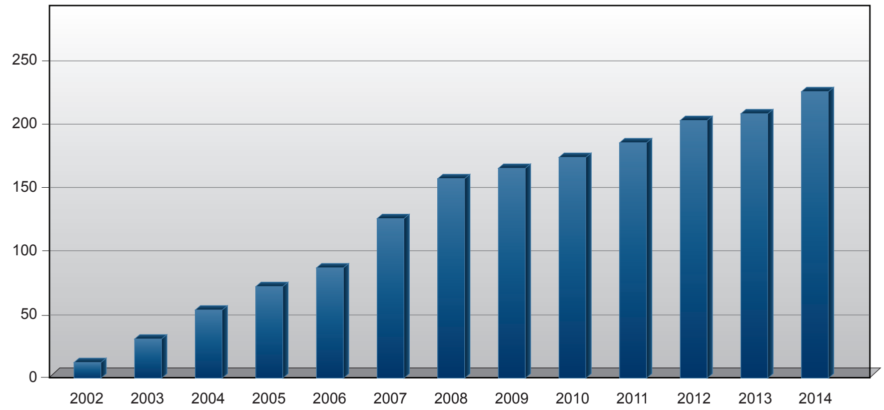
A selection of products and brands powered by Accolade.

BASF · Beiersdorf · benefit · Church & Dwight Co., Inc. · Merck · Electrolux · Glatfelter · Land O'Lakes, Inc.

NASA · Parker · PepsiCo · Philips sense and simplicity · سابك sabic · Vesuvius

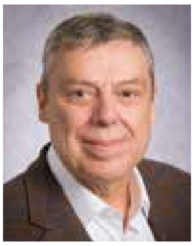


SOPHEON'S MARKET FIRSTS



Since inception Sopheon has built a roster of almost 230 licensees, including some of the world's best known companies and brands. We added ten new customers in 2014 – across a broad range of industries including defense, oil, and high-technology as well as in our traditionally core consumer goods and chemical sectors.

CHAIRMAN'S STATEMENT



We entered 2014 on the back of the strongest quarter in our history, and having taken the business from under $13m revenues in 2009 to almost $21m in 2013. This advance was coupled with steady improvements in profitability. We also entered 2014 in the second year of a strategic transition from delivering process automation, to delivering enterprise class, integrated innovation management solutions. We made substantial progress in 2014 completing this shift in our business model but not without some disruption to momentum, leading to revenues of $18.3m in 2014. The transition has taken longer than we had planned. With much of the organizational change and restructuring now behind us, I wish to re-emphasize my belief in our growth strategy. We continue to lead the market for innovation management solutions, with a breadth of vision, experience and capability that is unmatched by competitors that have emerged in recent years. We believe that the restructuring we have undergone to better address the enterprise market is the right path for the Sopheon business, at a time when we also believe that this market is maturing.

The closing quarter has always been busy and this was true for 2014. As previously announced, a number of our larger opportunities were deferred into 2015. One of our learnings last year was that enterprise solutions, while larger in value, require an even longer sales cycle than our historical business. Delays often reflect the impact of a more intense decision-making process due to its strategic importance; this was not fully anticipated, but underlines the importance and value of our integrated innovation management solution. In spite of this, revenue visibility coming into 2015 was $10.2m, only modestly down on $10.8m from the year before. This reflects the strengthening recurring revenue base coupled with good levels of services backlog from deals that did close at the end of 2014.

We added ten new customers in the year – across a broad range of industries including defense, oil, and high-technology as well as in our traditionally core consumer goods and chemical sectors. The investment and transformation in our sales organization has been completed, with new leadership in the US and Europe as well as several new team members, and dedicated resources bringing focus between new customer acquisition and existing customer account management. Partners and resellers continued to bring us into new opportunities and were instrumental in acquiring new customer wins. Our services organization was also restructured to support our growth strategy, and furthermore, we have brought services, support and development under common leadership.

Ongoing investment in software development delivered a continued rapid pace of releases, with Accolade 9.1 and 9.2 released in April and September respectively, and most recently Accolade 9.3 in February 2015. We continue to bring forward new and unique functionality. Areas of enhanced capability include roadmapping, resource planning and project execution, and deeper security and integration facilities – meeting the needs of new vertical segments as well as enterprise class requirements. As announced in January, we are also introducing Accolade Express, which enables customers to leverage Sopheon software to rapidly improve innovation performance, by adopting out-of-the-box best practices content developed from over a decade of experience with industry leaders.

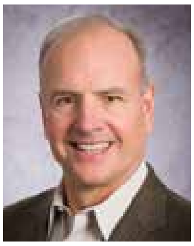
Early in the year, we were delighted to conclude $3.5m in new debt facilities with Silicon Valley Bank. In December, we successfully completed the share consolidation and capital reduction process initiated the year before, with a cumulative reduction of very small shareholdings by approximately 10,000 across the UK and the Netherlands. Sopheon's board stood behind fractional entitlements that were sold on the market and purchased the equivalent of 471,500 current ordinary shares, underscoring our belief in the business.

We remain confident in our strategic path. We look forward to improved commercial progress this year, to match and leverage the major strides made with organizational, product and corporate matters.

Barry Mence
Executive Chairman

18 March 2015

STRATEGIC REPORT

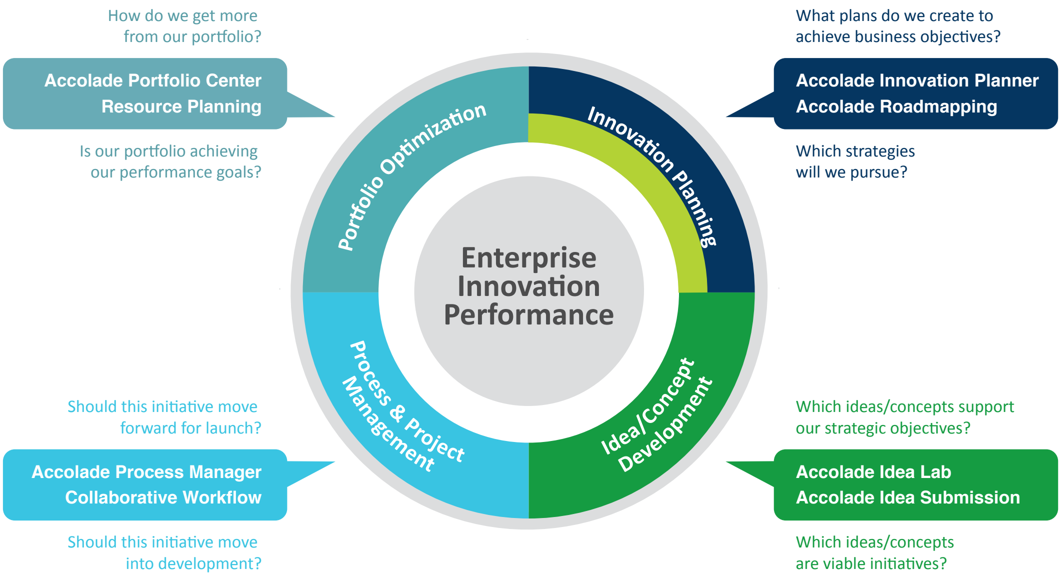


In this report, our CEO Andy Michuda provides more details on Sopheon's mission and differentiation, our principal growth strategies, and an update on our people, processes and platform. A summary of the principal risk areas facing the business is set out in the Directors' Report. Further analysis of 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 and forms part of this Strategic 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 and services 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, analytics and integrity tools improve project management and **Portfolio Optimization** to ensure 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

The Sopheon solution was designed from the start to ensure that business strategy stays front of mind, focusing on **the business value** that really matters to corporations. During 2014 a specific focus was on developing tighter integration of long-range planning functionality with near-term execution capabilities – an increasingly vital requirement in an ever more competitive and unpredictable world.

Conventional Approach	Sopheon's Approach
Project Orientation	Strategy Orientation
Focus on Rolling Up Projects	Focus on Achieving Corporate Strategy

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.

"Studies have found that two-thirds to three-quarters of large organizations struggle to implement their strategies."

Why Strategy Execution Unravels—and What to Do About It
Harvard Business Review, March 2015

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 increasingly disruptive and unplanned events in their markets which requires an ability to quickly assess the market situation, make fact-based informed decisions, and then implement appropriate actions. Sopheon's solutions integrate strategic initiatives with the day to day operating activities in a way that enables fast, dynamic adjustments based on continuous changes in market condition.

- **Sustainable Innovation** – Moving with speed remains a struggle for large global companies due to rising complexity inherent in their business models. Sopheon's integrated innovation management platform allows our customers to cut through the complexity, improving the rate of innovation. 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.

Growth Strategies

Sopheon's growth strategy centers on transitioning our business from "automating New Product Development" to "delivering Enterprise Innovation Management solutions." This sharper strategic focus is informed by experiences from some of our early client successes, supplemented by recent validation from industry shifts and trends. It has required us to redirect our selling channels, service delivery model and roadmap priority towards a higher value proposition, interconnected with offering customers a more strategic solution. Our refined focus requires Sopheon to:

"Many CEOs feel they can't move fast enough on the innovation front. But the most successful CEOs are doing three things to 'industrialise' innovation, i.e. to make it repeatable, dependable and scalable: they're focusing on breakthrough innovation in all its forms; putting disciplined innovation techniques in place; and collaborating much more actively."

17th Annual Global CEO Survey
PwC, 2014

- **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 2014 we continued our objective to dominate in our chosen core verticals of chemical, consumer products and high-tech. The focus on enterprise innovation management is enabled by our ability to leverage the deep industry knowledge we have developed over the years, to bring more value to our clients across their enterprise. Our progress and success as deploying this strategy in the consumer products market has been recognized by the fact that we have again – five years running – been voted among the top 10 providers of Innovation Solutions by consumer goods executives. Our ambition is to replicate this success in the years to come with ongoing initiatives in the other core sectors, chemicals and high-tech.

- **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. Our strategy calls for us to continue to expand the range of our innovation solutions, extending our footprint within our customers across their enterprise, to deliver considerably higher value for their investment in Accolade. Examples of this product strategy in recent years include our 2012 release of Accolade Innovation Planner™ and the migration of Accolade Vision Strategist™ (now known as Accolade Roadmapping™) to our core Accolade platform, offering a single-database repository for strategic planning, operational execution and portfolio decision making. We believe this is unique. In 2014 we have invested in dedicated account management resources, and in social marketing programs focused on our customer base, to support our client growth strategy.

- **Transition distribution channels for Enterprise Solution selling:** We recognize that selling enterprise class, integrated solutions requires different skills to selling automation tools. This strategy has led to several changes in our distribution model. In the US we completed the migration to 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 process took longer than anticipated but we are pleased to have all roles transferred and filled coming into 2015. These changes have been led by Sheila Plunkett, who was appointed in the first half of 2014 to lead the North American sales team. In November we also appointed Pieter Leijten to lead our European sales team. Sheila and Pieter have extensive experience with software companies such as IBM, SAP and Infor, as well as start-up environments, and they bring us deep experience in selling enterprise solutions. We also continued to develop our ties with consulting firms, an area we believe will be key to the acceleration of our growth.

"Projects are divided into different stages, each leading to a specific gate where decisions about the next stage are taken. Accolade is a software tool for managing this kind of processes. It will help Treofan bring more focused innovation to the market in less time. It will also help the company focus its innovation resources in the most efficient and effective way."

Peter Vanacker
Chief Executive Officer, Treofan

People, Process & Platform

People & Process

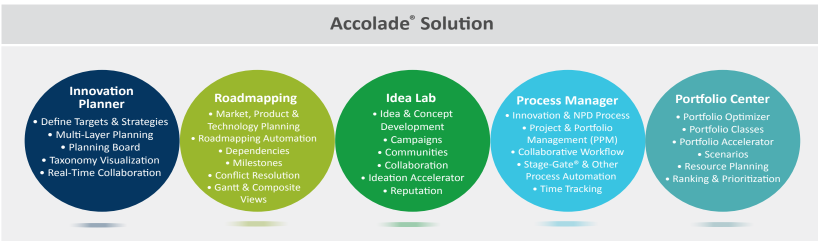
Sopheon is differentiated in the market by its industry-leading reputation for deep domain expertise in the product development business process referred to as "Stage-Gate®". Over recent years the market has pulled Sopheon more holistically into the broader innovation management space. That know-how 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. We place great emphasis on the development of our people to institutionalize this deep experience and knowledge of enterprise integrated innovation in our customer facing teams. This priority continues to have high visibility inside our company.

We have continued our transformation of the global Customer Success (consulting and implementation services) organization, embedding standardized methodologies and reporting mechanisms to support integrated innovation management. Our services 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 is a single global team with people located across time zones to support local customer requests. Our Success and Support organizations now report to Don Sarno, who led the transformation of our product development approach to Agile and who has now taken on a Chief Operating Officer role.

Platform

Over the years Sopheon has made significant investments in product development as a commitment to maintaining our leadership of a market we helped to create through our own innovation. These investments have been consistently held above 20 percent of revenue. Our Product Development organization operates using an Agile methodology. Our goal is to deliver three major releases a year. Leveraging our industry-standard .NET foundation, the Agile methodology drives greater customer interaction and feedback directly into the development process. It allows maximum flexibility to respond to market needs, while at the same time supporting strategic needs.

We continued a rapid pace in 2014 with Accolade 9.1 and 9.2 released in April and September respectively, and have most recently released Accolade 9.3 in February 2015. Amongst a host of other improvements, these new versions stepped up our functionality in roadmapping, resource planning and project execution. In addition, Accolade 9.1 introduced a range of security enhancements while Accolade 9.2 had greater focus on additional integration capabilities with the latest versions of Microsoft® Office. Our releases continue to be aligned to market needs and reflect extensive input from our customer panels. Alongside Accolade 9.3 we have also released the first iteration of our new Accolade Express offering, which will enable enterprises to rapidly automate innovation processes based on implementing out-of-the-box best practices rooted in Sopheon's extensive experiences with industry-leading customers.



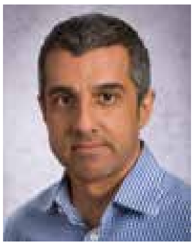
Sopheon's Accolade solution provides integrated support for the entire innovation and new product development lifecycle, including innovation planning, roadmapping, idea and concept development, process and project management, portfolio management, and resource planning.

Beyond the market and customer inputs, at the strategic level we continue to track four key product roadmap drivers – 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.

Approved by the board on 18 March 2015 and signed on its behalf by:

Andy Michuda
CEO

FINANCIAL REPORT



In this report, our CFO Arif Karimjee provides further analysis of Sopheon's financial results during 2014, our financial position at the end of the year, and an overview of key corporate developments. In view of the fact that two-thirds of Sopheon's revenues and staff are based in the USA, the board took the decision to present the group's financial statements in US Dollars as of the 2014 interim report. This is the first annual report reflecting this change. It is intended to reduce the effect of currency movements on reported revenues, and to better reflect the underlying source of the majority of the group's business. Comparatives for the prior period have been restated accordingly.

Trading Performance

Sopheon's consolidated turnover in 2014 was $18.3m, compared to $20.8m in 2013. The overall shape of the business continues to be approximately one-third Europe and two-thirds North America, with a material contribution from other territories including Asia, the Pacific Rim and the Middle East.

Total license transactions including extension orders were 42 in 2014, compared to 47 in 2013. A trend in the previous two years of rising average revenue per transaction was interrupted, which in conjunction with the lower transaction count resulted in a lower overall sales performance. Accordingly, while maintenance and hosting revenues remained broadly consistent with the prior year, license and services revenues both fell back. Taking the long view, the annualized average growth of our business since the launch of Accolade remains above 20 percent.

Business Mix

Over the years we have frequently referred to the sensitivity of our license results to individual sales events. Historically, the second and fourth quarters tend to be strong and the final quarter of 2013 was a particularly marked example, being the strongest revenue quarter in our history. In 2014, while the second and fourth quarters were certainly stronger than the first and third, they did not match the prior year performance. In particular, and as we announced towards the end of 2014, a number of large transactions that we had originally expected to close in the fourth quarter were delayed into 2015. Such delays are often reflective of an opportunity growing in size and scale; potentially a good long-term outcome but of course the impact on the year under review can be unwelcome. This deferral of larger orders also contributed to the average deal size being lower than in the prior year, as referenced above.

Although overall sales were lower, the contribution from new customers improved to 45 percent from 35 percent in 2013, reflecting a number of exciting new customer wins. We entered last year determined to improve new sales performance, and backed this up with a recruitment strategy in North America that was focused on ensuring better segregation between hunter and farmer sales representatives. In addition to the appointment of a new sales leader in April, by the end of 2014 we had ten sales representatives in the US, of which five joined the team during the year. In November we also brought on a new sales leader in Europe, where we ended the year with three experienced representatives and have just added a fourth.

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 stood at approximately $7.9m coming into 2015, compared to $7.5m coming into 2014 and $7.1m coming into 2013. We recognize that this rising trend of recurring revenue is key to our progress and stability, and have introduced 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 2014 our business delivered a 21:42:37 ratio of licenses, maintenance, and services respectively compared to 29:35:36 in the previous year.

Overall our reported gross margins were 66 percent, down from 70 percent in 2013, reflecting the lower level of high-margin license revenue, coupled with the relatively fixed costs in our services business.

Research and Development Expenditure

Overall investment in product development decreased by approximately $0.1m in 2014, following a steady annual rise since 2010; this compares to the headline R&D reported in the income statement showing a reduction from $4.8m to $4.3m. The majority of the difference is due to the effects of capitalization and amortization of development costs. The amount of 2014 research and development expenditure that met the criteria of IAS38 for capitalization was $2.4m (2012: $1.8m) offset by amortization charges of $2.1m (2013: $1.8m). These capitalized costs are largely attributable to the group's investment in the Accolade 9.1, 9.2 and 9.3 releases. In 2013, a further $0.1m of amortization and impairment charges relating to acquired intangible assets were charged to distribution costs; these were fully written down coming into 2014 and accordingly the charge did not recur.

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 2014, this metric was 23 percent (2013: 23 percent).

Operating Costs

Coming into 2012 Sopheon had 95 staff members, which we grew to 116 by the end of 2013. Following expansion of resources in line with revenue growth through 2012 and 2013, we stabilized headcount in light of developments last year and ended 2014 with 113 staff. Although staffing numbers were broadly constant year on year, all cost areas were moderated by the reduced bonus attributable to the lower 2014 performance. The corporate bonus 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 in a given year 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 $0.1m lower amortization and impairment charge noted above, as well as lower commission costs, sales and marketing costs were broadly stable at $6.2m in 2014 compared to $6.3m in 2013.

Headline administration costs have risen by $0.2m, mainly due to a swing from a net exchange gain position on the group's cash balances to a net exchange loss. As a matter of policy, the group does not hedge currency balances. Underlying administration costs and resourcing have remained broadly constant since 2007.

Results

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.

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 2014 falling to $1.2m, from $3m in 2013.

Including the effect of interest, depreciation and amortization, the group reported a loss before tax for the year of $1.5m (2013: profit of $0.5m). No tax has been provided. The loss per ordinary share was 20.9 cents (2013: profit per share of 7.3 cents).

Balance Sheet and Corporate

Consolidated net assets at the end of the year stood at $4.2m (2013: $5.8m). Gross cash resources at 31 December 2014 amounted to $4.7m (2013: $4.0m). Approximately $2.4m was held in US Dollars, $2.0m in Euros and $0.3m in Sterling.

Intangible assets stood at $5.9m (2013: $5.6m) at the end of the year. This includes (i) $4.9m being the net book value of capitalized research and development (2013: $4.6m) and (ii) an additional $1.0m (2013: $1.0m) being goodwill arising on the acquisitions of Alignent Software Inc., and Sopheon GmbH.

Facilities

Since 2007 the company had term-loan and line of credit facilities provided by BlueCrest Capital Finance ("BlueCrest"). 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 instalments, 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 underpin the group's growth strategies, 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. In June 2014, the Loan Stock investors agreed to extend the maturity date by two years to 31 January 2017. The conversion price is 76.5 pence per share.

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.

Approved by the board on 18 March 2015 and signed on its behalf by:

Arif Karimjee
CFO

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	
Registered Office	Dorna House One Guildford Road West End, Surrey GU24 9PW	
Registered Name and Number	Sopheon plc. Registered in England and Wales No. 3217859	
Auditors	BDO LLP 55 Baker Street London W1U 7EU	
Principal Bankers and Financiers	Silicon Valley Bank 3003 Tasman Drive Santa Clara, CA 95054 United States	Lloyds TSB Bank plc. 77 High Street Southend-on-Sea Essex SS1 1HT
	Rabobank Amsterdam Van Baerlestraat 102-106 1071 BC Amsterdam The Netherlands	
Solicitors and Attorneys	Squire Patton Boggs 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2200 IDS Center, 80 South Eighth Street Minneapolis, MN 55402 United States
	Loyens & Loeff Fred Roeskestraat 100 1076 ED Amsterdam The Netherlands	
AIM Nominated Adviser and Broker	finnCap Limited 60 New Broad Street London EC2M 1JJ	
Alternext Paying Agent	Kempen & Co. Beethovenstraat 300 1077 WZ Amsterdam The Netherlands	
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA	

REPORT ON DIRECTORS' REMUNERATION

The remuneration committee of Sopheon plc is responsible for oversight of the contract terms, remuneration and other benefits for executive directors, including performance-related bonus schemes. The committee comprises two non-executive directors, B.P.F. Al, as chairman, and S.A. Silcock, together with B.K. Mence, other than in respect of his own remuneration. The committee makes recommendations to the board, within agreed parameters, on an overall remuneration package for executive directors and other senior executives in order to attract, retain and motivate high quality individuals capable of achieving the group's objectives. The package for each director consists of a basic salary, benefits and pension contributions, together with performance-related bonuses and share options on a case-by-case basis. Consideration is given to pay and employment policies elsewhere in the group, especially when considering annual salary increases. From time to time, the remuneration committee may take advice from appropriate remuneration consultants 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 US Dollars at the average rate for the period. Mr. Mence's remuneration is largely fee-based and therefore subject to fluctuations from period to period. Benefits primarily comprise healthcare insurance and similar expenses. Details of directors' interests in shares and options are set out in the Directors' Report.

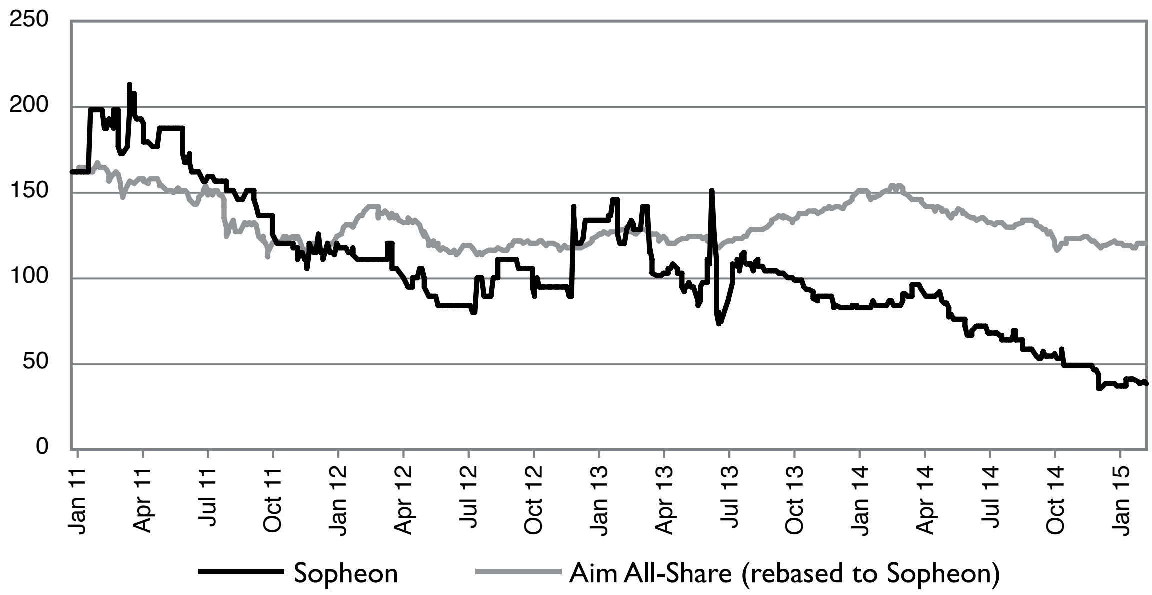
	Pay and Fees 2014 $	*Bonus 2014* $	*Benefits 2014* $	*Total 2014* $	*Total 2013* $
Executive Directors					
B.K. Mence	235,064	-	5,652	240,716	247,335
A.L. Michuda	283,750	-	12,596	296,346	312,503
A. Karimjee	196,459	-	3,713	200,172	202,062
Non-executive Directors					
S.A. Silcock	32,942	-	-	32,942	31,398
B.P.F. Al	32,942	-	-	32,942	31,398
D. Metzger	32,942	-	-	32,942	31,398
	814,099	-	21,961	836,060	856,094

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 2013 and 2014 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 2014 contributions of $8,030, $3,943 and $9,033 (2013: $7,653, $4,754 and $9,405) were paid respectively to the pension schemes of B.K. Mence, A.L. Michuda and A. Karimjee.

Performance Graph

The following graph shows the company's share price performance on AIM since January 2011, in UK pence, 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 group'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	2014	2013	2014	2013	2014	2013
B.K. Mence	24,250	24,250	1,033,000	722,500	£640,000	£640,000
A.L. Michuda	199,880	199,880	30,000	8,000	£45,000	£45,000
A. Karimjee	57,500	57,500	17,500	4,500	£27,000	£27,000
S.A. Silcock	-	-	145,000	47,500	£200,000	£200,000
S.A. Silcock*	-	-	4,000	4,000	-	-
B.P.F. Al	1,125	1,125	61,500	32,500	£60,000	£60,000
D. Metzger	-	-	5,000	5,000	-	-

Of the 1,033,000 ordinary shares mentioned above B.K. Mence beneficially owns and is the registered holder of 917,000 ordinary shares. His wife, Mrs. M.T. Mence, beneficially owns 500 ordinary shares. A further 115,500 ordinary shares are held by Inkberrow Limited, a company which is owned by B.K. Mence.

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.

	Date of Grant	*Exercise Price*	*At 31 December 2013*	*Granted During Year*	*Expired During Year*	*At 31 December 2014*
B.K. Mence	29 September 2012	105p	6,125	-	-	6,125
B.K. Mence	5 December 2013	85p	18,125	-	-	18,125
A.L. Michuda	27 August 2010	150p	12,500	-	-	12,500
A.L. Michuda	29 September 2012	105p	138,380	-	-	138,380
A.L. Michuda	5 December 2013	85p	49,000	-	-	49,000
A. Karimjee	27 August 2010	150p	7,500	-	-	7,500
A. Karimjee	29 September 2012	105p	23,125	-	-	23,125
A. Karimjee	5 December 2013	85p	26,875	-	-	26,875
B.P.F. Al	29 September 2012	105p	1,250	-	-	1,250

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 2014 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 2014 was 39.5p. During the financial year the mid-market price of Sopheon ordinary shares (adjusted, where applicable, for the share consolidation and subsequent share subdivision referred to in Note 23) ranged from 39.5p to 96.5p. 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 18 March 2015 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 and services that improve the return on investment of product development, within the rapidly emerging product lifecycle management (PLM) market. A review of the development of the business during the year is given in the Chairman's Statement on page 6 and the subsequent Strategic and Financial Reports. These also include reference to the group's future prospects. In view of the fact that two-thirds of the group's revenues and staff are based in the USA, the directors have decided to present the group's financial statements in US Dollars. The group's result for the year ended 31 December 2014 is a loss after tax of $1,519,000 (2013: profit $534,000). As for 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 2014, all directors attended all quarterly 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 15.

Share Consolidation and Subsequent Subdivision of Shares

In May 2013 a reorganization of the company's share capital was carried out, including a share consolidation and subsequent share subdivision intended to reduce the disproportionately large number of shareholders with relatively small shareholdings for a company of Sopheon's size. However, the capital reorganization was not correctly processed by certain brokers in the Netherlands. Enquiries and representations established that this could not be rectified other than by repeating the process. Accordingly, on 10 October 2014 shareholders approved a further share consolidation, on the basis of one new ordinary share of £100 nominal value for every 500 ordinary shares of 20p each. On 18 December 2014 shareholders approved a further share subdivision, whereby each ordinary share of £100 nominal value was subdivided into 500 ordinary shares of 20 pence each.

Share Option Schemes

Details of options granted are shown in Note 27 to the financial statements.

Post Balance Sheet Events

There are no post balance sheet events that warrant disclosure in 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 22 to the financial statements.

Substantial Shareholdings

The directors are aware of the following persons who as at 18 March 2015 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)	1,033,000	14.2
Rivomore Limited and Myrtledare Corp.	1,408,500	19.4

B.K. Mence also holds £640,000 nominal of 8% convertible loan stock. Rivomore Limited and Myrtledare Corp. also hold £640,000 nominal of 8% convertible loan stock. The convertible loan stock is convertible at the rate of 76.5p per ordinary share.

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

Approved by the board on 18 March 2015 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 2014 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 Auditing Practices Board's (APB'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 APB's website at **www.frc.org.uk/apb/scope/private.cfm**

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 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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

18 March 2015

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 2014

	Notes	*2014* *$'000*	*2013* *$'000*
Revenue	3	18,296	20,841
Cost of sales		(6,209)	(6,296)
Gross profit		12,087	14,545
Sales and marketing expense		(6,173)	(6,331)
Research and development expense		(4,298)	(4,776)
Administrative expense		(2,718)	(2,486)
Operating (loss)/profit		(1,102)	952
Finance income	8	12	27
Finance expense	9	(429)	(445)
(Loss)/profit before tax		(1,519)	534
Income tax expense	10	-	-
(Loss)/profit for the year	5	(1,519)	534
(Loss)/earnings per share			
Basic and fully diluted (US cents)	12	(20.87c)	7.34c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 *$'000*	*2013* *$'000*
(Loss)/profit for the year	(1,519)	534
Other comprehensive expense		
Exchange differences on translation of foreign operations	(197)	(99)
Total comprehensive (expense)/income for the year	(1,716)	435

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2014

		Group			Company		
	Notes	2014 $'000	2013 $'000	2012 $'000	2014 $'000	2013 $'000	2012 $'000
Assets							
Non-current Assets							
Property, plant and equipment	13	265	326	318	-	-	-
Intangible assets	14	5,889	5,598	5,694	-	-	-
Investments in subsidiaries	15	-	-	-	9,551	10,113	9,893
Other receivable	16	19	19	19	-	-	-
Total non-current assets		6,173	5,943	6,031	9,551	10,113	9,893
Current Assets							
Trade and other receivables	17	6,755	9,066	6,403	52	2	-
Cash and cash equivalents	18	4,735	4,027	6,273	789	479	2,352
Total current assets		11,490	13,093	12,676	841	481	2,352
Total assets		17,663	19,036	18,707	10,392	10,594	12,245
Liabilities							
Current Liabilities							
Trade and other payables	19	2,842	3,503	3,861	492	628	587
Borrowings	20	2,124	1,513	1,830	-	-	-
Deferred revenue		5,166	4,949	4,304	-	-	-
Total current liabilities		10,132	9,965	9,995	492	628	587
Non-current Liabilities							
Borrowings	20	3,288	3,270	3,436	3,120	3,270	3,167
Total non-current liabilities		3,288	3,270	3,436	3,120	3,270	3,167
Total liabilities		13,420	13,235	13,431	3,612	3,898	3,754
Net assets		4,243	5,801	5,276	6,780	6,696	8,491
Equity							
Share capital	23	2,354	2,354	11,769	2,354	2,354	11,769
Capital reserves	24	5,654	5,498	89,926	5,654	5,498	89,926
Translation reserve		(46)	151	250	-	-	-
Retained losses		(3,719)	(2,202)	(96,669)	(1,228)	(1,156)	(93,204)
Total equity		4,243	5,801	5,276	6,780	6,696	8,491

Approved by the board and authorized for issue on 18 March 2015.

Barry K. Mence
Director

Arif Karimjee
Director

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

		Group		Company	
	Notes	*2014*	*2013*	*2014*	*2013*
		$'000	*$'000*	*$'000*	*$'000*
Operating Activities					
(Loss)/profit for the year		(1,519)	534	488	(2,105)
Adjustments for:					
Finance income		(12)	(27)	-	-
Finance costs		429	445	330	261
Depreciation of property, plant and equipment		227	226	-	-
Amortization and impairment of intangible assets		2,076	1,923	-	-
Share-based payment expense		158	121	158	121
Intra-group credits and charges		-	-	(448)	(482)
Provisions against intra-group loans		-	-	(1,043)	1,383
Operating cash flows before movements in working capital		1,359	3,222	(515)	(822)
Decrease/(increase) in receivables		2,003	(2,568)	(50)	(2)
(Decrease)/increase in payables		(314)	99	(137)	41
Net cash generated from/(used in) operating activities		3,048	753	(702)	(783)
Investing Activities					
Finance income		12	27	-	-
Purchases of property, plant and equipment		(176)	(227)	-	-
Development costs capitalized		(2,367)	(1,788)	-	-
Acquisition of subsidiary undertaking		-	(58)	-	-
Net cash acquired with subsidiary undertaking		-	69	-	-
Advance of loans to group companies		-	-	(1,486)	(2,826)
Repayment of loans by group companies		-	-	2,974	1,926
Net cash (used in)/generated from investing activities		(2,531)	(1,977)	1,488	(900)
Financing Activities					
Drawdown/(repayment) of loan notes		92	(1,080)	-	-
Increase in line of credit		729	450	-	-
Expenses of capital reorganization		-	(31)	-	(31)
Interest paid		(395)	(413)	(295)	(229)
Net cash from financing activities		426	(1,074)	(295)	(260)
Net increase/(decrease) in cash and cash equivalents		943	(2,298)	491	(1,943)
Cash and cash equivalents at the beginning of the year		4,027	6,273	479	2,352
Effect of foreign exchange rate changes		(235)	52	(181)	70
Cash and cash equivalents at the end of the year	18	4,735	4,027	789	479

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

Group

	Share Capital $'000	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Losses $'000*	*Total $'000*
At 1 January 2013	11,769	89,926	250	(96,669)	5,276
Profit for the year	-	-	-	534	534
Exchange differences on translation of foreign operations	-	-	(99)	-	(99)
Total comprehensive income for the year	-	-	(99)	534	435
Recognition of share-based payments	-	121	-	-	121
Lapsing or expiry of share options	-	(729)	-	729	-
Capital reorganization and reduction of capital	(9,415)	(83,820)	-	93,204	(31)
At 1 January 2014	2,354	5,498	151	(2,202)	5,801
Loss for the year	-	-	-	(1,519)	(1,519)
Exchange differences on translation of foreign operations	-	-	(197)	-	(197)
Total comprehensive income for the year	-	-	(197)	(1,519)	(1,716)
Recognition of share-based payments	-	158	-	-	158
Lapsing or expiry of share options	-	(2)	-	2	-
At 31 December 2014	2,354	5,654	(46)	(3,719)	4,243

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 23 and 24.

Company

	Share Capital $'000	*Capital Reserves $'000*	*Retained Losses $'000*	*Total $'000*
At 1 January 2013	11,769	89,926	(93,204)	8,491
Loss and total comprehensive income for the year	-	-	(1,885)	(1,885)
Recognition of share-based payments	-	121	-	121
Lapsing or expiry of share options	-	(729)	729	-
Capital reorganization and reduction of capital	(9,415)	(83,820)	93,204	(31)
At 1 January 2014	2,354	5,498	(1,156)	6,696
Profit and total comprehensive loss for the year	-	-	(74)	(74)
Recognition of share-based payments	-	158	-	158
Lapsing or expiry of share options	-	(2)	2	-
At 31 December 2014	2,354	5,654	(1,228)	6,780

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 14. The principal activities of the company and its subsidiaries are described in Note 3. The financial statements have been prepared in US Dollars 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. The impact of IFRS 15 Revenues from Contracts with Customers, which will apply from reporting periods beginning on or after 1 January 2017, is still being assessed. None of the other new standards, amendments and interpretations in issue but not yet effective are expected to have a material effect on the financial statements.

Change in Accounting Policies

The group's financial statements have been presented in US Dollars. In prior periods, the financial statements were presented in British Pounds Sterling. This change is intended to reduce the effect of currency movements on reported revenues, and to better reflect the underlying nature of the business. Approximately two-thirds of the group's revenue and operating costs are denominated in US Dollars. The 2013 and 2012 balance sheets for the group and company have been retranslated into US Dollars at 1.6528 and 1.6168 US Dollars to British Pounds Sterling, and the results for 2013 have been retranslated into US Dollars at 1.5699 US Dollars to British Pounds Sterling. Retranslation differences arising have been recognised in the translation reserve.

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 2017.

During 2014, the group achieved revenues of $18.3m and a loss before tax of $1.5m. This represents a reduced performance compared to the previous year, which culminated 5 years of growth. The directors believe this was a temporary pause in the development of the business. Coming into 2015, the group's sales pipeline remains active, and accordingly, the directors remain positive about the prospects for the business.

On 25 February 2014 the group established facilities with Silicon Valley Bank ("SVB") to replace expiring facilities from BlueCrest Capital Finance. The new facilities comprised a term loan of $0.5m repayable in 36 equal monthly instalments, and a $3m revolving line of credit, which will come up for renewal in February 2016. The facilities are subject to covenants based on operating results and working capital ratios.

In addition, the group has a £2,000,000 convertible loan outstanding to key investors including members of the board and management. The current terms of the loan call for repayment or conversion by 31 January 2017.

Notwithstanding the group's funding position, the time-to-close and the order value of individual sales continues to vary considerably as exemplified by 2014's results. 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. If sales fall short of expectations, there is a risk that 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 Consideration

The consolidated financial statements incorporate the financial statements of the parent company Sopheon plc and the financial statements of the subsidiaries as shown in Note 15 of the consolidated financial statements. The financial statements of all the group companies are prepared using uniform accounting policies. 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. 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 of the date of acquisition.

Identifiable intangible assets are capitalized at fair value as at the date of acquisition. The useful lives of these intangible assets are assessed and amortization is charged on a straight-line basis, with the expense taken to the income statement 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 licenses are recognized once no significant obligations remain owing to the customer in connection with such license sale. Such significant obligations could include giving a customer a right to return the software product without any preconditions, or if the group is unable to deliver a material 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 US Dollars 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.

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 above), 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 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 2014 and 2013 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 2014	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	12,544	5,752	18,296
Operating profit/(loss) before interest and tax	424	(1,526)	(1,102)
Finance income	-	12	12
Finance expense	(95)	(334)	(429)
Profit/(loss) before tax	329	(1,848)	(1,519)
Depreciation and amortization	(2,239)	(64)	(2,303)
EBITDA	2,664	(1,463)	1,201
Balance Sheet			
Fixed asset additions	132	44	176
Capitalization of internally generated development costs	2,367	-	2,367
Total assets	13,766	3,897	17,663
Total liabilities	(8,088)	(5,332)	(13,420)

Year ended 31 December 2013	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	13,984	6,857	20,841
Operating profit/(loss) before interest and tax	1,137	(184)	953
Finance income	-	27	27
Finance expense	(182)	(263)	(445)
Profit/(loss) before tax	953	(419)	534
Depreciation, amortization and impairment charges	(2,091)	(58)	(2,149)
EBITDA	3,155	(126)	3,029
Balance Sheet			
Fixed asset additions	131	96	227
Capitalization of internally generated development costs	1,788	-	1,788
Total assets	13,289	5,747	19,036
Total liabilities	(7,148)	(6,087)	(13,235)

One customer accounted for approximately 10 percent of the group's revenues in 2014. A different customer accounted for approximately 8 percent or more of the group's revenue in 2013. In 2014 the customer was within the North America segment based on location of operations (2013: Europe segment).

External revenues in 2014 exclude inter-segmental revenues which amounted to $1,696,000 (2013: $2,148,000) for North America and $370,000 (2013: $349,000) for Europe.

Revenues attributable to customers in North America in 2014 amounted to $11,433,000 (2013: $12,507,000). Revenue attributable to customers in the rest of the world amounted to $6,863,000 (2013: $8,335,000) of which $5,775,000 (2013: $6,754,000) was attributable to customers in Europe.

4. EBITDA AND REVENUE VISIBILITY

EBITDA

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

	2014 *$'000*	*2013* *$'000*
(Loss)/profit for the year after tax	(1,519)	534
Interest payable	429	445
Interest receivable	(12)	(27)
Amortization of intangible assets	2,076	1,851
Depreciation of property, plant and equipment	227	226
Income tax expense	-	-
EBITDA	1,201	3,029

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):

	2014 *$'000*	*2013* *$'000*
Continuing Operations		
Net foreign exchange losses/(gains)	42	(106)
Research and development costs (excluding amortization)	2,367	2,972
Amortization of intangible assets	2,076	1,851
Impairment of intangible assets	-	72
Depreciation of property, plant and equipment	227	226
Operating lease rentals – land and buildings	587	497
Operating lease rentals – other	120	118

Net foreign exchange gains or losses arise on the translation of cash and trade balances held in currencies other than the functional currency of the entity concerned 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 the parent, pursuant to legislation, are not segregated from those for the group and are included in the amounts disclosed.

	2014 *$'000*	*2013* *$'000*
Audit of the financial statements of the group	84	76
Audit of the financial statements of the UK subsidiary	7	7
Review of interim financial information	16	16
Audit of US pension plan	-	8
Tax services	15	22

7. STAFF COSTS

	2014 *$'000*	*2013* *$'000*
Wages and salaries	11,390	11,700
Social security costs	1,019	1,064
Pension contributions	234	243
Employee benefits expense	951	808
	13,594	13,815

Included within the above are staff costs capitalized as development expenditure amounting to $2,367,000 (2013: $1,788,000). Included within wages and salaries are bonus and sales commission costs amounting to $455,000 (2013: $945,000).

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

	2014 *Number*	*2013* *Number*
Development and operations	79	78
Sales and management	35	36
	114	114

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

The remuneration of all directors was as follows:

	2014 *$'000*	*2013* *$'000*
Fees and emoluments	836	856
Pension contributions	21	22
	857	878

No director exercised share options during the year (2013: None). Pension contributions are to personal defined contribution schemes and have been made for three directors (2013: three) who served during the year.

Full details of directors' remuneration are disclosed in the Report on Directors' Remuneration on page 15.

8. FINANCE INCOME

	2014 $'000	2013 $'000
Income on financial assets measured at amortized cost		
Interest income on bank deposits	12	27

9. FINANCE EXPENSE

	2014 $'000	2013 $'000
Interest expense on financial liabilities measured at amortized cost Interest on borrowings	(429)	(445)

10. INCOME TAX EXPENSE

	2014 $'000	2013 $'000
Income tax expense for the year – current tax	-	-

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

	2014 $'000	2013 $'000
(Loss)/profit before tax	(1,519)	534
Tax credit/(charge) at the UK corporation tax rate of 21.5% (2013: 23.25%)	327	(124)
Adjustment for differing rates of corporate taxation in overseas jurisdictions	143	(96)
Tax effect of expenses that are not deductible in determining taxable losses	(91)	(115)
Temporary differences arising from the capitalization and transfer of development investments	280	249
Losses for the year not relievable against current tax	(659)	-
Utilization of prior year losses	-	86
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:

	2014 $'000	2013 $'000
Shortfall of tax depreciation compared to book depreciation	194	225
Effect of timing differences arising from capitalization of internally generated development costs	(1,704)	(1,602)
Unrelieved trading losses	21,307	21,569
Unrecognized deferred tax asset	19,797	20,192

At 31 December 2014, tax losses estimated at $73m were available to carry forward by the Sopheon group, arising from historic losses incurred. These losses represent a potential deferred tax asset of $21.3m, based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of $11.7m (representing $4.1m 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. PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

The profit dealt with in the financial statements of the parent company for the year ended 31 December 2014 was $488,000 (2013: loss of $2,105,000). Advantage has been taken of Section 408 of the Companies Act 2006 not to present an income statement for the parent company.

12. (LOSS)/EARNINGS PER SHARE

	2014 *$'000*	*2013* *$'000*
Profit after tax	(1,519)	534
	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,279	7,279

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 2014 and 2013. 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 of reducing the loss per share or 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 636,190 share options to subscribe for ordinary shares (details of which are set out in Notes 23 and 27), have a strike price above the average market price for the year.

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment* *$'000*	*Furniture & Fittings* *$'000*	*Total* *$'000*
Cost			
At 1 January 2013	1,455	302	1,757
Additions	166	61	227
Exchange differences	7	5	12
At 1 January 2014	1,628	368	1,996
Additions	168	8	176
Exchange differences	(20)	(10)	(30)
At 31 December 2014	1,776	366	2,142
Accumulated Depreciation			
At 1 January 2013	1,190	249	1,439
Depreciation charge for the year	191	35	226
Exchange differences	3	2	5
At 1 January 2014	1,384	286	1,670
Depreciation charge for the year	195	32	227
Exchange differences	(15)	(5)	(20)
At 31 December 2014	1,564	313	1,877
Carrying Amount			
At 31 December 2014	212	53	265
At 31 December 2013	244	82	326

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 2013	13,500	1,394	2,614	983	18,491
Additions (internally generated)	1,788	-	-	-	1,788
Acquisition in 2013	-	-	-	39	39
At 1 January 2014	15,288	1,394	2,614	1,022	20,318
Additions (internally generated)	2,367	-	-	-	2,367
Amounts written off	-	(1,394)	(2,614)	-	(4,008)
At 31 December 2014	17,655	-	-	1,022	18,677
Amortization					
At 1 January 2013	8,908	975	1,371	-	11,254
Charge for the year	1,804	-	47	-	1,851
At 1 January 2014	10,712	975	1,418	-	13,105
Charge for the year	2,076	-	-	-	2,076
Amounts written off	-	(975)	(1,418)	-	(2,393)
At 31 December 2014	12,788	-	-	-	12,788
Accumulated Impairment Losses					
At 1 January 2013	-	419	1,124	-	1,543
Impairment losses in year	-	-	72	-	72
At 1 January 2014	-	419	1,196	-	1,615
Amounts written off	-	(419)	(1,196)	-	(1,615)
At 31 December 2014	-	-	-	-	-
Carrying Amount					
At 31 December 2014	4,867	-	-	1,022	5,889
At 31 December 2013	4,576	-	-	1,022	5,598

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, and have now been written off in full. 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, each of which is treated as a separate cash generating unit. Goodwill primarily relates to the North American operating segment.

The valuation used for this purpose is based on cash-flow projections for the next five years, and thereafter for an indefinite period at a growth assumption of 3 percent. The discount rate used was 14.6 percent. Sensitivity analysis performed on these projections demonstrates significant valuation headroom above the carrying value of goodwill. The same discount and growth rates were used for the valuation conducted in respect of 2013.

Company
The company has no intangible assets.

15. INVESTMENT IN SUBSIDIARIES

At 31 December 2012 and at 31 December 2013

	Company $'000
At cost less amounts provided	
At 31 December 2013	10,113
Exchange difference	(562)
At 31 December 2014	9,551

Details of the company's subsidiaries at 31 December 2014 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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Other receivable	19	19	-	-

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

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Trade receivables	6,072	7,962	-	-
Other receivables	9	21	-	2
Total receivables	6,081	7,983	-	2
Prepayments	545	572	52	-
Accrued income	129	511	-	-
	6,755	9,066	52	2

Trade and other receivables are stated net of allowances totaling $Nil (2013: $Nil) 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 $62,870,000 (2013: $67,565,000) 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	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Cash at bank	3,944	2,592	789	479
Short-term bank deposits	791	1,435	-	-
	4,735	4,027	789	479

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 $38,000 (2013: $40,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Trade payables	833	909	74	83
Other payables	246	255	160	169
Tax and social security costs	336	342	-	-
Accruals	1,427	1,997	258	376
	2,842	3,503	492	628

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	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
Current Loans and Borrowings				
Line of credit	1,979	1,250	-	-
Loan notes (current portion)	145	263	-	-
Total current loans and borrowings	2,124	1,513	-	-
Non-current Loans and Borrowings				
Loan notes (non-current portion)	168	-	-	-
8% convertible loan stock 2017	3,120	3,270	3,120	3,270
Total non-current loans and borrowings	3,288	3,270	3,120	3,270
Total loans and borrowings	5,412	4,783	3,120	3,270

a) Line of Credit and Loan Notes

In February 2014 the group established new credit facilities with Silicon Valley bank. The facilities comprise a $3m revolving line of credit and a term loan of $0.5m repayable in 36 equal installments. Both facilities bear interest at rates of 2.75 percent above the Bank's Prime Rate, 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.

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.

b) 8 Percent Convertible Loan Stock 2017

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, whereby 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.

As a result of 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 was convertible into ordinary shares of 20p each of the company at a rate of 100p per ordinary share.

On 2 June 2014 the company announced that it had reached agreement with the holders of the loan stock to extend the maturity date of the loan stock to 31 January 2017 coupled with an amendment of the conversion price to 76.5p per share, representing the closing market price of Sopheon shares immediately prior to such agreement.

Holders may convert the loan stock into Sopheon ordinary shares at any time up to the extended maturity date of 31 January 2017, and any loan stock not converted is to be repaid at par on that date.

21. 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 2014 $'000	*Other 2014 $'000*	*Land & Buildings 2013 $'000*	*Other 2013 $'000*
Due within one year	583	113	537	99
Due after one year and within five years	1,116	159	394	149
	1,699	272	931	248

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.

22. 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	*2014* *$'000*	*2013* *$'000*	*2014* *$'000*	*2013* *$'000*
Current Financial Assets					
Trade receivables	17	6,072	7,962	-	-
Other receivables	17	9	21	52	2
Accrued income	17	129	511	-	-
Cash and cash equivalents	18	4,735	4,027	789	479
		10,945	12,521	841	481
Non-current Financial Assets					
Other receivable	16	19	19	-	-

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

2. Financial Liabilities

		Group		*Company*	
	Notes	*2014* *$'000*	*2013* *$'000*	*2014* *$'000*	*2013* *$'000*
Current Financial Liabilities					
Trade payables	19	833	909	74	83
Other payables	19	246	255	160	169
Accruals	19	1,427	1,997	258	376
Loans and borrowings	20	2,124	1,513	-	-
		4,630	4,674	492	628
Non-current Financial Liabilities					
Loans and borrowings	20	168	-	-	-
8% convertible loan stock 2015	20	3,120	3,270	3,120	3,270
		3,288	3,270	3,120	3,270
		7,918	7,944	3,612	3,898

As set out in Note 20 the carrying value of the convertible loan stock 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, while 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 2014, the largest single customer accounted for 10 percent of group revenues (2013:8 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 2014 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	*Current*	*Past Due +30 Days*	*Past Due +60 Days*
	$'000	*$'000*	*$'000*	*$'000*
At 31 December 2014	6,072	5,030	642	400
At 31 December 2013	7,962	6,063	488	1,411

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:

		2014			*2013*	
	$'000 Gross Value	*$'000 Provision*	*$'000 Carrying Value*	*$'000 Gross Value*	*$'000 Provision*	*$'000 Carrying Value*
Trade receivables						
North America	4,792	-	4,792	5,682	-	5,682
Europe	1,280	-	1,280	2,280	-	2,280
	6,072	-	6,072	7,962	-	7,962

The group records impairment losses on its trade receivables separately from the gross amounts receivable. No impairment losses were recorded during 2014 or 2013. 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 and deposit accounts 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 2014	*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	2,842	-	-	-	2,842
Line of credit	1,979	-	-	-	1,979
Loan notes	83	83	167	28	361
Future interest – loan notes	10	7	7	-	24
Convertible loan stock	-	-	3,120	-	3,120
Future interest – convertible loan stock	125	125	250	21	521
Total financial liabilities	5,039	215	3,544	49	8,847

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	3,503	-	-	-	3,503
Line of credit	1,250	-	-	-	1,250
Loan notes	263	-	-	-	263
Future interest – loan notes	7	-	-	-	7
Convertible loan stock	-	-	3,306	-	3,306
Future interest – convertible loan stock	132	132	23	-	287
Total financial liabilities	5,155	132	3,329	-	8,616

Company

At 31 December 2014	*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	492	-	-	-	492
Convertible loan stock	-	-	3,120	-	3,120
Future interest – convertible loan stock	125	125	250	21	521
Total financial liabilities	617	125	3,370	21	4,133

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	628	-	-	-	628
Convertible loan stock	-	-	3,306	-	3,306
Future interest – convertible loan stock	132	132	23	-	287
Total financial liabilities	760	132	3,329	-	4,221

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 consisted of the convertible loan stock with a nominal value of £2,000,000, which bears a fixed interest rate of 8 percent. This liability does not give rise to interest rate risk. The group also had a revolving line of credit and a term loan, on which $2,340,000 in aggregate was outstanding at 31 December 2014, and which bore interest at a margin of 2.75 percent above the Bank's Prime Rate, currently representing an effective rate of 6 percent. Should this rate have increased 1 percent the annualized effect would have been to increase finance costs by $23,000.

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 2014 was $791,000. During 2014 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 2014	*US Dollars $'000*	*Sterling $'000*	*Euro $'000*	*Total $'000*
Financial Assets				
Receivables and accrued income	4,867	189	1,173	6,229
Cash and cash equivalents	2,424	288	2,023	4,735
Total financial assets	7,291	477	3,196	10,964
Financial Liabilities				
Trade and other payables	1,384	403	719	2,506
Borrowings	2,340	3,120	-	5,460
Total financial liabilities	3,724	3,523	719	7,966

At 31 December 2013	*US Dollars $'000*	*Sterling $'000*	*Euro $'000*	*Total $'000*
Financial Assets				
Receivables and accrued income	5,986	370	2,157	8,513
Cash and cash equivalents	1,279	149	2,599	4,027
Total financial assets	7,265	519	4,756	12,540
Financial Liabilities				
Trade and other payables	1,655	569	937	3,161
Borrowings	1,513	3,306	-	4,819
Total financial liabilities	3,168	3,875	937	7,980

The amount shown in respect of Sterling borrowings at 31 December 2014 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, while 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 Sterling and the Euro against the US Dollar had been higher or lower than those which actually applied during the year and at the year end.

	2014	*2013*	*2014*	*2013*
	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*
Strengthening of Sterling in US Dollar terms by 10c	(58)	(26)	(115)	(488)
Weakening of Sterling in US Dollar terms by 10c	55	30	122	488
Strengthening of Euro in US Dollar terms by 10c	31	89	77	121
Weakening of Euro in US Dollar terms by 10c	(35)	(86)	(63)	(120)

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.

	2014	*2013*
	Increase/(Decrease) in Profit After Tax	
	$'000	*$'000*
Strengthening of Sterling in US Dollar terms by 10c	(187)	(220)
Weakening of Sterling in US Dollar terms by 10c	190	220
Strengthening of Euro in US Dollar terms by 10c	48	8
Weakening of Euro in US Dollar terms by 10c	(48)	(8)

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 23.

23. SHARE CAPITAL

Issued and Fully Paid	*2014 Number*	*2014 $'000*	*2013 Number*	*2013 $'000*
Ordinary shares of 20 pence each	7,279,000	2,354	7,279,000	2,354

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 the company has had in issue one class of ordinary shares, which have at no time carried any right to fixed income. As referred to in the Directors' Report, on 10 October 2014 shareholders approved a share consolidation, on the basis of one new ordinary share of £100 nominal value for every 500 ordinary shares of 20p each. On 18 December 2014 shareholders approved a share subdivision, whereby each ordinary share of £100 nominal value was subdivided into 500 ordinary shares of 20 pence each, thereby reversing the share consolidation.

At 31 December 2014 the company had outstanding 25,138 warrants to subscribe for ordinary shares of 20p each at a price of 400p 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.

24. CAPITAL RESERVES

Group	*Share Premium $'000*	*Capital Redemption Reserve $'000*	*Equity Reserve $'000*	*Special Reserve $'000*	*Total $'000*
At 1 January 2013	84,230	4,663	1,033	-	89,926
Recognition of share-based payments	-	-	121	-	121
Lapsing or expiry of share options	-	-	(729)	-	(729)
Reduction of capital	(84,230)	(4,663)	-	5,104	(83,789)
Expenses of capital reorganization	-	-	-	(31)	(31)
At 1 January 2014	-	-	425	5,073	5,498
Recognition of share-based payments	-	-	158	-	158
Lapsing or expiry of share options	-	-	(2)	-	(2)
At 31 December 2014	-	-	581	5,073	5,654

Company	*Share Premium $'000*	*Capital Redemption Reserve $'000*	*Equity Reserve $'000*	*Special Reserve $'000*	*Total $'000*
At 1 January 2013	84,230	4,663	1,033	-	89,926
Recognition of share-based payments	-	-	121	-	121
Lapsing or expiry of share options	-	-	(729)	-	(729)
Reduction of capital	(84,230)	(4,663)	-	5,104	(83,789)
Expenses of capital reorganization	-	-	-	(31)	(31)
At 1 January 2014	-	-	425	5,073	5,498
Recognition of share-based payments	-	-	158	-	158
Lapsing or expiry of share options	-	-	(2)	-	(2)
At 31 December 2014	-	-	581	5,073	5,654

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 2017.

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 2014 and at 31 December 2013, the Esot held 7,000 ordinary shares of 20p each in the company, which represents 0.1 percent of the company's ordinary share capital. The equity reserve includes a deduction of $17,000 (2013: $17,000) which represents the cost of the shares held by the Esot at 31 December 2014.

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 2014 and at 31 December 2013, 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.

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 23, amounting to $9,415,000, the cancellation of share premium amounting to $84,230,000 and of the capital redemption reserve amounting to $4,663,000, and after offsetting $93,204,000 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.

25. 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 $234,000 (2013: $243,000) represents contributions paid to such plans at rates specified in the rules of the plans.

26. 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:

	2014 *$'000*	*2013* *$'000*
Emoluments and benefits	1,898	2,097
Pension contributions	47	55
Share-based payments	119	93
	2,064	2,245

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:

	2014 *$'000*	*2013* *$'000*
Net amounts borrowed/(repaid) by subsidiaries by way of interest-free loans	(1,025)	1,356
Net management charges to subsidiaries	448	482

The amounts owed by subsidiary companies to the parent company at 31 December 2014 totaled $62,870,000 (2013: $67,565,000). A full provision has been made against these amounts, which are unsecured and are subordinated to the claims of all other creditors.

During 2014 and 2013 the company granted share options to employees of subsidiary companies. Details of grants of share options are disclosed in Note 27.

Other Related Party Transactions

There were no other related party transactions during the year under review or the previous year.

27. 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 2013 and 2014 are as follows:

	Number of Share Options	*Weighted Average Exercise Price £*
Outstanding at 1 January 2013	12,179,680	0.10
Options granted in 2013 prior to capital reorganization	1,117,500	0.05
Options lapsed in 2013 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 in 2013 subsequent to capital reorganization	233,704	0.85
Options lapsed or cancelled in 2013 subsequent to capital reorganization	(231,204)	3.65
Outstanding at 31 December 2013	610,940	1.04
Options granted in 2014	38,500	0.55
Options lapsed in 2014	(13,500)	0.96
Outstanding at 31 December 2014	635,940	1.01
Exercisable at 31 December 2014	335,492	1.12
Exercisable at 31 December 2013	157,095	1.27

No share options were exercised during the year (2013: Nil). The options outstanding at the end of the year have a weighted average contractual life of 8.1 years (2013: 9.0 years).

During the year share options were granted on 19 September 2014, when the exercise price of options granted was 55p and the estimated fair value was 32.6p.

During 2013 share options were granted on 18 April 2013 (prior to the capital reorganization referred to in Note 23), 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.

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

Date of Grant	*September 2014*	*December 2013*	*April 2013*
Share price at time of grant	55p	85p	5.25p
Exercise price	55p	85p	5.25p
Expected volatility	40%	40%	40%
Risk-free rate	5%	5%	5%
Expected dividend yield	Nil	Nil	Nil

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.

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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