2017 Annual Report

Enterprise Innovation Management
Portfolio Optimization
Innovation Planning
Idea/Concept Development
Process & Project Management

STRATEGIC REPORT

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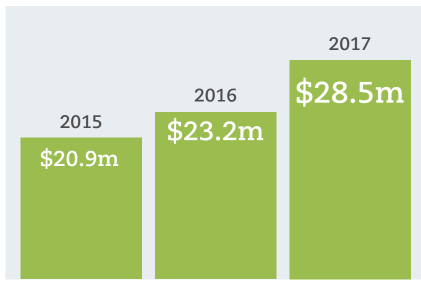
Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation.

We do this by digitalizing enterprise innovation through **software, services and best practices** that help companies operate with success.

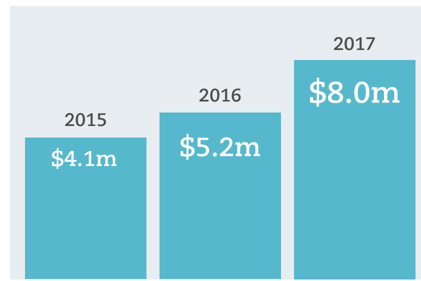
Our solutions **connect people, systems and information,** helping companies better execute on business strategy and improve the return on their investments into initiatives such as enterprise innovation, product development, transformational change, supply chain efficiencies and cost reduction.

These solutions are designed to keep strategy visible and continuously aligned with operational execution throughout the initiative life cycle, ensuring long-term market success. The transparency and insight they provide support **speed, agility and adaptability** – all critical enterprise capabilities in the digital era – and enable decision-making that drives better business outcomes.

REVENUE

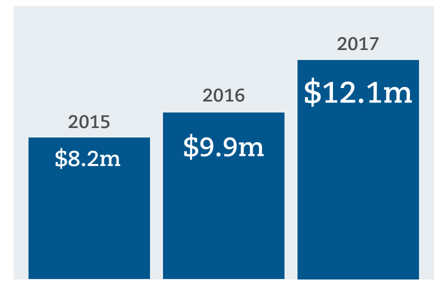


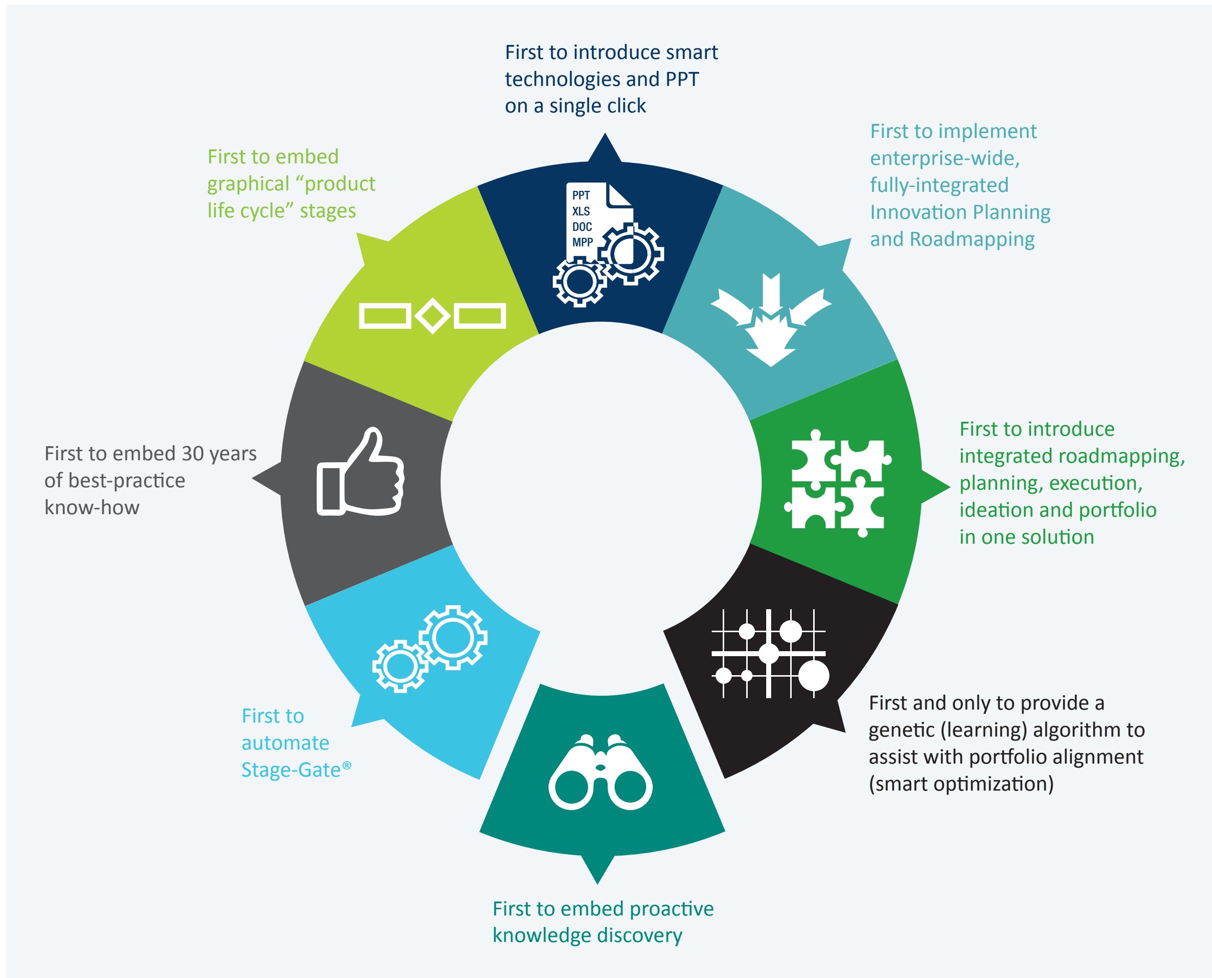
EBITDA



EBITDA in 2016 was $5.6m if exceptional exchange gains are included.

RECURRING REVENUE





High-Tech Electronics
Aerospace & Defense Food & Beverage
Chemicals Consumer Goods
Industrial Manufacturing

Land O'Lakes, Inc. · Leprino Foods · THE LINDE GROUP · Parker · PEPSICO · P&G · سابك sabic

CHAIRMAN'S STATEMENT

In conjunction with a truly exceptional financial performance in 2017, we continue to advance our strategy to be the world's leading provider of enterprise-class innovation management solutions. Our vision has consistently led this market, and an increasing number of notable global corporations are choosing to partner with Sopheon to help them execute on their strategy and innovation priorities. Rising momentum and market recognition delivered a very strong finish to the year, resulting in revenues, EBITDA and other profit measures all exceeding market expectations by a significant margin. Revenues rose to $28.5m from $23.2m in 2016. On the back of an already strong increase in profitability in 2016, it is very gratifying to report that EBITDA[1] last year reached $8.0m, up from $5.6m the year before, and that we achieved profit before tax of $5.1m, compared to $3.0m the year before. Alongside a realignment of our debt position, this resulted in net assets rising to $18.6m from an already very solid $10.4m the year before, and net cash rising to $9.5m from $4.2m the year before.

Both volume and average value of license transactions increased compared to 2016. In particular, performance last year included the signing of two very substantial deals in the final quarter in the USA and in Germany, each with a multinational enterprise that is an undisputed leader in its field, which contributed materially to the overall outperformance. Such customers further validate the acceptance of our Accolade® solution as an enterprise platform within the largest and most influential of corporations. We saw more acceptance of our SaaS (Software as a Service) offering, with three new SaaS customers signed last year. The strengthening recurring revenue base, along with the strong sales bookings at the end of 2017, has resulted in 2018 revenue visibility[2] now at $19.3m as compared to $14.5m last year. This is a tremendous start to the new year, which we will build on by executing our growth strategy in three distinct areas, and which gives us the confidence to accelerate our investment program in 2018.

First, we seek to capitalize on existing blue chip client relationships to extend Accolade as the digital platform of choice to empower enterprise adaptability across a global organization. This ambition extends our sights beyond new product innovation to areas such as management of capital expenditure, corporate initiatives, and intellectual property. With this in mind, our three Accolade releases last year focused our platform development on scalability, security, knowledge discovery and transparency; aggressive and innovative product development will remain a key area of investment going forward.

The second growth priority is to continue to target industries through deeper specialization and domain-specific expertise. We continued to win business and customers in our target sectors – consumer products, chemicals, aerospace and defense, and high-tech. Sopheon was recognized as the top software vendor in our solution category by CGT magazine, underlining our strength in consumer products in particular. In addition, we continued to assess new verticals on the back of initial customer wins in insurance, apparel and auto-parts but are yet to make a concerted push in these areas.

Third, we are working to multiply our growth rate through distribution partnerships – channel, strategic and geographical – to develop and monetize an Accolade ecosystem.

Sopheon is the only vendor recognized in all of the following Market Guides by Gartner: Strategy Execution Management Software, Innovation Management Tools, Strategic & Innovation Roadmapping and Product Roadmapping, as well as its Magic Quadrant for Project Portfolio Management Worldwide. In addition, Sopheon has now been recognized as a leader in the Forrester Wave™: Strategic Portfolio Management Tools. Collectively, these are major strategic milestones in establishing both our company and our market.

As we reflect on a third and unprecedented year of success for Sopheon, we are more determined than ever to make sure that Sopheon strengthens its leadership position in our rapidly evolving market. In order to deliver on the growth strategies that I have outlined, we have ambitious investment plans for 2018 involving product, people and process. Where appropriate, this will also include consideration of targeted M&A opportunities when consistent with our goals and criteria. Alongside strategic initiatives, we remain highly driven by revenue and profit objectives. To emphasize this, the board has decided to propose a maiden dividend and will put this to members at the next annual general meeting to be held in June this year.

Barry Mence
Executive Chairman

21 March 2018

[1] *EBITDA is defined and reconciled in Note 4 to the financial statements.*

[2] *Revenue visibility 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.*

STRATEGY AND MARKET

In this section, our CEO Andy Michuda provides more details on Sopheon's mission, differentiation, and principal growth strategies. 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 Review.

What We Do

Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation. We accomplish this by digitalizing corporate innovation with software and services that align and connect organizations, embed best-practice innovation processes, and enable corporate speed, agility and adaptability.

Many market-leading corporations are challenged to compete in today's fast-moving environment due to a complex operational infrastructure that has been built up over time. A multitude of stand-alone systems supporting different functional groups have created isolated pockets of information, which today prevent companies from responding quickly to external market changes with sound, fact-based decisions. This is compounded by the fact that many of these traditional industry leaders are operating with outdated and disconnected twentieth-century tools while attempting to compete in the twenty-first century digital era, putting them at risk of finding themselves on the wrong side of what research indicates is a growing digital divide separating today's winners and losers.

Sopheon believes one cannot win today without digitalizing corporate innovation strategies, initiatives and activities. Through our end-to-end innovation platform that links an organization's strategic ambition with the operational execution activities required to realize that strategy, Sopheon's software solutions enable three critical transformational corporate capabilities:

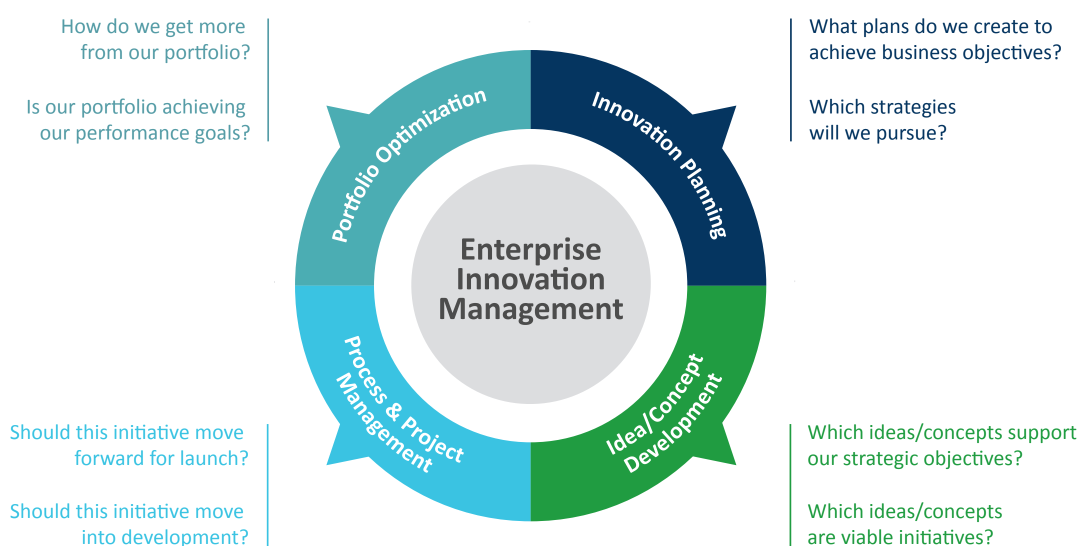
1. The shift from a static annual planning cadence to an ongoing and iterative one.
2. An improved rate of performance against funded strategic initiatives.
3. The transition from siloed knowledge workers to interconnected, cross-functional work teams performing in context of strategic objectives.

The digital movement has fundamentally changed the role of corporate innovation, forcing a move away from the decades-long, narrow focus on research and development (R&D) management to a broader, more interconnected Enterprise Innovation Management (EIM) competency.

Digitalizing EIM allows companies to cut through the complexity of reacting to ever-changing market needs while improving and increasing the rate of innovation. New technologies, products and services are strategically aligned with long-term growth goals, market requirements, industry regulations, and supplier competencies. In addition, a CEO's strategic direction and strategic pivots can now be driven, propagated, managed, tracked and realized with a velocity that could not be accomplished without an EIM platform in place.

Sopheon clients benefit from any or all of four distinct yet tightly linked solutions offered from a single EIM platform, depending on their area of need and level of innovation maturity.

- Strategic planning and alignment of long-term **Innovation Plans**, engaging teams from marketing, research and development, finance, supply chain, sales and manufacturing to all work collaboratively in the common interest of the corporate strategy.
- Generation and development of higher-value **Ideas and Concepts** to fill key gaps relevant to achieving strategic initiatives.
- Facilitation of improved **Cross-Functional Team Work** that enables collaboration and tracks progress against key initiatives in context of corporate strategy.
- Data management, analytics and integrity tools to improve **Portfolio Optimization**, which ensures the best return on innovation investments.



The following value has been derived by Sopheon customers following implementation of Sopheon's EIM software:

- **Reduced Time to Market:** One customer reduced cycle time by over 30 percent through process efficiencies and sharing information, while significantly reducing the average team size.
- **Improved Success Rate:** Another customer reduced its new product failure rate by over 55 percent, and a continued focus on list of "top ten" new product projects ensures they continue to meet success criteria.
- **Increased Portfolio Value:** Parker Hannifin reduced the number of projects in their portfolio by 50 percent and increased the portfolio value by 500 percent.
- **Increased Throughput:** One customer increased the revenue from new products released to the market by 25 percent without additional resources.

Industry Trends

We see a continuing convergence of business, economic and market trends that create unique growth opportunity, given Sopheon's market position, solutions and investments. Statistics suggest that 75 percent of the S&P 500 will no longer be on the list by 2027[3] and we are witnessing a sea change in that many of the most successful companies in the world recognize the need for urgent transformation to remain relevant to their customers in the digital era. Sopheon believes that digitalizing the enterprise innovation operating model is now accepted by many as a "must have" to survive and win.

The primary challenge for these market leaders is to transform their operating model from what once served their historical success, to a new operating model that leverages the strength of their assets and capabilities while at the same time allows them to operate with the nimbleness and flexibility of small start-ups. This is commonly referred to as digital transformation. Following are several examples of this trend, quoting directly from public websites:[4]

- "[P&G is] putting strategies and capabilities into place to transform P&G into a faster-growing, more profitable and far simpler company."[5]
- "[Conagra Brands is] transforming the way we operate to fulfill what consumers and customers want, in a smart, simple way. We're modernizing our iconic food brands, leveraging fresh opportunities and adapting to a changing landscape – all with a culture that's ready to capture growth and drive shareholder value."[6]
- "[PepsiCo is] constantly pushing ourselves to transform, because in a world defined by increased volatility, complexity and speed, it is the only way to succeed."[7]

Startups More Able to Raise $1B+ to Challenge Incumbents

Source: Innovation Leader, 2016

- "A sizable and growing customer segment is looking for organic and natural products, and as a result, packaged food companies are facing a relevance problem. One company that has done well in this difficult and changing environment is General Mills…General Mills was able to gain relevance in this important growth segment for one reason: They saw a relevance challenge early and responded with acquisitions, investments in products and programs, and a sense of direction powered by their mission and values."[8]
- "[Speed] is everything – including the speed at which we learn, the speed at which we execute, and the speed at which we pivot. To that end, we have prioritized speed and agility in our people, in our processes, and in the tools we use to iterate with our customers and partners…. [We] can't succeed by creating speed and agility in a vacuum – our transformation roadmap must bring the entirety of GE into the digital world."[9]

Continued Market Momentum and Validation

Sopheon felt a market shift in 2017 in several areas, all of which give us confidence and optimism for the future.

"The Accolade application is improving our focus on growth projects aligned to the market needs as well as our efficiency in development and bringing new products to market. We see it as an important tool that will underpin our future growth strategy."

Jennifer Lewis, Head of Portfolio, Certis Europe

- **Highest value new client orders in the history of the company:** The 2017 revenue contribution from first-time clients was higher than ever before at $6.9m compared to $3.9m in 2016. We believe this accomplishment was validation of the increasing enterprise transformation and urgency for growth initiative realization described above. Another factor is the market recognition that our software platform meets the expanding enterprise innovation needs beyond "product innovation" to include new areas such as, but not limited to, corporate initiative management, intellectual property management, cost improvement, and IT project and portfolio management; all of which contributed to this increase in order value.
- **Increased interest and coverage by software business analysts:** We saw a record number of referrals from respected industry analysts Gartner and Forrester year over year, as well as an increase in requests for briefings to learn more about our company, software and services, which resulted in coverage in nine new industry research initiatives. Highlights of 2017 coverage:
  - Forrester named Sopheon a "Leader" in Strategic Portfolio Management in their Q3 2017 report on vendors providing agile tools to drive digital transformation.
  - Gartner named Sopheon in research across all four primary Enterprise Innovation Management solution areas, including Market Guides or Magic Quadrants on Strategy Execution Management Software, Strategic & Innovation Roadmapping, Product Roadmapping, Project Portfolio Management and Innovation Management.
  - Sopheon was the only vendor that was common across all of the above stated areas.
- **Named "Best in Category":** We are very proud to be voted a Top 10 technology solution provider for new product development and introduction (NPDI) by executive readers of Consumer Goods Technology magazine for the eighth consecutive year. As part of the publication's annual Readers' Choice Survey, executives from consumer goods organizations are asked to identify the NPDI solutions that best support their efforts to deliver new products to market, as well as their satisfaction levels with each provider. In the last such survey, industry executives rated Sopheon and our Accolade® Enterprise Innovation Management software as the top solution in this category.

- **Highest client retention in company history:** We continued an upward trend of increased client retention, reaching 95 percent (up from 94 percent). This is an indicator of higher adoption and perceived value by our clients.
- **Met or exceeded client expectations:** As in the year before, we were thrilled to have met or exceeded client expectation in 100 percent of cases during check-in reviews with client executive sponsors conducted six months after software “go live”.
- **Record fourth quarter results:** Fourth quarter revenue exceeded $10m (2016: $6.9m)**.**

What Makes Sopheon Different

Innovation Specialists with Deep Experience working with World Leaders

Sopheon’s legacy is rooted in innovation management and our corporate mission has never wavered from helping our customers achieve long-term growth and profitability through sustainable innovation. This conviction and passion has earned us a unique, differentiated position in our target markets. One hundred percent of our efforts – from product to support to consulting and training – have been directed to deepening our competency in innovation management. World leaders like PepsiCo, Parker, P&G, BASF, Tetra Pak, Juniper, Honeywell and many others have put their trust in partnership with Sopheon as they navigate the industry threats and opportunities of digitalization, consumer power and other external market disrupters. Sopheon’s longevity working with these companies has provided a one-of-a-kind accumulation of learning and experience that distinguishes our people, process and technology.

Our clients expect Sopheon to share this domain expertise to assist them in improving their innovation performance. We continue to develop our consultancy depth and competency to support our continued growth, and expect our enduring focus and investment in our people to continue to separate Sopheon from the competition through 2018 and beyond.

The combination of deep domain knowledge of Sopheon’s people with the increased operational value that Accolade delivers is resonating with global industry leaders as they turn to Sopheon for partnership.

"The partnership and working spirit [are] the reasons we've kept this relationship going for over a decade now."

Bill Beane, Sr. Director, Corporate Technology Ventures & Innovation Systems, Parker Hannifin

An Ecosystem of Clients that Collaborates to Make One Another Stronger

Sopheon’s solutions have been implemented by over 250 customers with over 60,000 users in over 50 countries. Our client base of global innovation leaders has grown to be an additional differentiator for us as our clients increasingly benefit through collaboration, sharing and learning across this ecosystem.

An Enterprise Innovation Management Platform that Connects Strategic Planning and Operational Execution with Proven Enterprise Scale

- Sopheon pioneered a centralized, 'single source of truth' system of record that connects corporate strategy with corporate execution. With Accolade, cross-functional internal groups and external stakeholders all contribute information to and extract insight out of the same system, improving the speed and quality of the decision-making cadence.
- Sopheon is the **only vendor** named in the Forrester Wave™: Strategic Portfolio Management, Gartner’s Market Guide for Strategy Execution Management Software, and Gartner’s two roadmapping Market Guides (Strategy & Innovation Roadmapping, and Product Roadmapping). In our view, this strongly validates Sopheon’s unique capability to manage three critical enterprise areas, namely strategic planning, portfolio management, and strategy execution. Of note is that we accomplish this with a single software platform. This is a further differentiator for us at a time when companies are looking to simplify corporate complexity by reducing the number of stand-alone information systems they rely on to be successful, all requiring integration efforts to work together.

- Sopheon has demonstrated unique enterprise scalability by deploying Accolade across some of the world's most complex companies and largest, most highly visible brands. Below are a few figures from across our customer base that illustrate the scalability of the Accolade software:
  - Over 60,000 active projects on a single Accolade instance
  - Up to 6,000 projects in a single "what-if" portfolio scenario
  - Over 11,000 licensed users across a single organization
  - Over 1,000 people resources in a single portfolio within a single client account

Continuous Product Advancement

We continue to invest in our Accolade product, with a roadmap that regularly delivers three new releases per annum. Our roadmap priorities come from three sources:

1. Client requirements captured through our customer insights and client forum programs.
2. Market requirements reported by our commercial facing teams.
3. Our internal strategic roadmap.

In 2017 we delivered on three product releases as per our usual cadence with market announcements as follows:

- 23 February 2017 – Accolade 11.1 – Focus of this release: Accolade bolsters a visible connection between strategy and operational activities for increased alignment and employee engagement.
- 6 July 2017 – Accolade 11.2 – Focus of this release: Accolade offers new predictive analytics and knowledge discovery capability to enable actionable insights.
- 16 November – Accolade 11.3 – Focus of this release: Accolade intelligently alerts product leaders on variances from established targets and forecasts to increase performance transparency and support market success.

"With the Accolade software we are able … to make better and more effective strategic decisions."

Steven Moskowitz, Manager, Strategic Innovation, Entegris Inc.

In addition, we continue to make continued progress in both quality and security of our product platform to stay current with evolving enterprise application requirements.

- Security of systems and information is a "must have" capability in the enterprise software market, and even more so for enterprise software that supports strategic execution and innovation. There is no information that is more closely linked to an organization's competitive position and therefore more sensitive than this. At the same time, today's fast-paced and highly competitive market demands more openness and collaboration than ever before. We have separated ourselves from the competition in successfully providing both the safeguard of security together with the extraordinary flexibility and adaptability required to operate in the digital era.

  Accolade is a repository for the most restricted data of some of the largest global companies, as well as organizations that must comply with extremely strict security standards for government-related data and projects. As such, we have continually enhanced our product, our services and our processes to support the demands of these organizations. Based on repeated feedback from prospects in their purchasing cycle, we believe we have a strong approach and comprehensive solution that addresses the security requirements of these organizations and their corporate IT departments.

  We have the following certifications:
  - Sopheon is ISO 27001 : 2013 certified.
  - Sopheon is Skyhigh CloudTrust Enterprise-Ready.
  - Data centers providing hosting are at a minimum ISO 9001, ISO 27001, or SSAE 16 certified.
  - Accolade is Stage-Gate Ready Certified by Stage-Gate International. The Stage-Gate Ready logo identifies certified software solutions capable of automating new product development and new product portfolio management processes and practices. Stage-Gate International recommends buyers look for this "seal of approval" when evaluating innovation process automation software.

Growth Strategy

Sopheon's growth strategy is to enable corporations to execute on their new operational models for sustainable innovation success in the digital era. This focus requires Sopheon to:

- **Leverage blue chip references to extend Accolade as the digital platform of choice and to empower enterprise adaptability across a global organization.** Sopheon's roster of customer names is a Who's Who of the world's leading companies. We will continue to partner tightly with our clients to gain insights and learnings to drive further advancement and development in the Enterprise Innovation Management market. Sopheon has been a specialist in new product development for some 17 years. Over the last few years, we have seen the expanded use of Accolade beyond product development. Indeed, an important aspect of 2017 growth was the increased adoption of Accolade as an enterprise platform for areas outside our traditional product innovation arena. Licenses sold last year included applications for Accolade as diverse as capital expenditure management, intellectual property (IP) management, IT project and portfolio management, and enterprise initiative management. Each of these represents extension business beyond the core product innovation process. We believe our Accolade platform extension strategy represents a significant growth opportunity. In addition, the pace of technology disruption in today's market requires companies to be able to make strategic and often transformational pivots with speed. We call this capability "enterprise adaptability." Our clients are increasingly using Accolade as the platform to enable these shifts and we believe this trend will continue. We therefore anticipate further enterprise adaptability expansion in 2018.

"Accolade is a powerful platform that can support many use cases and corporate portfolios, which has allowed us to extend our initial investment for managing our new product development into other areas including IT project portfolios and electronic lab notebooks."

Jason Eckert,
SVP of Global Research,
Development & Quality, Leprino Foods

- **Generate faster growth in target industries through deeper specialization and domain-specific expertise.** We have always believed that different vertical markets, while sharing core functionality needs, have specific pain points and best-practice needs. In 2017 we continued our objective to dominate in our chosen core verticals of chemicals, aerospace, consumer products, food and beverage, and high technology. Sopheon's long history and experience in these verticals allows us to operate as an industry connector for our clients, introducing them to one another to jointly learn and advance their competency and success. We will continue to invest in industry-specific expertise and solutions. Last year we indicated that we were beginning to explore the insurance and auto verticals. We continue to assess the opportunities in the broader financial services, auto and the apparel markets. We have not yet put solid investment behind these areas and they remain under consideration.

- **Multiply our growth through developing and monetizing an Accolade ecosystem of distribution partnerships – channel, strategic and geographical.** We feel Accolade and our ecosystem have now matured to where it makes sense to invest time in the development of a network of partner relationships to expand the growth rate of the business. Partner development will come in several shapes, including expanded distribution beyond our geographic reach with our own direct team; consulting partners operating in the Enterprise Innovation Management space who can both introduce and leverage our solution; and strategic partners who have created great innovation intellectual property (IP) and are looking for a platform to take it to the broader markets.

Performance and momentum suggest we are on the correct path, giving us confidence in our growth strategy as we go forward.

A summary of the principal risks areas facing the business is set out in the Directors' Report.

Approved by the board on 21 March 2018 and signed on its behalf by:

Andy Michuda
CEO

[3] Richard Foster, Yale School of Management
[4] Sopheon makes no claim to any formal working relationship with the companies quoted
[5] http://www.pginvestor.com/Company-Strategy/Index?KeyGenPage=208821
[6] http://www.conagrabrands.com/our-company/overview
[7] https://www.greenbiz.com/article/conversation-pepsico-chairman-and-ceo-indra-nooyi-how-do-you-promote-transformation
[8] https://www.prophet.com/thinking/2015/08/243-general-mills-gains-relevance-through-products-and-acquisition/
[9] https://www.ge.com/digital/blog/digital-industrial-transformation

FINANCIAL REVIEW

In this review, our CFO Arif Karimjee provides further analysis of Sopheon's financial results during 2017, our financial position at the end of the year, and an overview of key corporate developments.

Trading Performance

Sopheon's consolidated turnover in 2017 was $28.5m, a 23 percent increase over $23.2m in 2016. Almost half of the rise can be attributed to a strong license performance, with both volume and value factors playing a role. Total license transactions including extension orders were 59 in 2017, compared to 49 the year before – but just as importantly, the average revenue recognized per license transaction increased to over $158,000 (2016: $138,000), helped by two very substantial orders signed in the final weeks of the year. One of these was signed in the United States, and the other in Germany. Overall, the increase in license revenues was 37 percent. Maintenance and hosting revenues were up almost 21 percent, and services by almost 13 percent. As in 2016, the impact of the currency changes on revenue was relatively muted in 2017 and if the prior year exchange rates had been in effect, 2017 revenues would have been just $0.2m lower. Overall, in 2017 our business delivered a 33:36:31 ratio of licenses, maintenance and hosting, and services respectively compared to 29:37:34 in the previous year. This marks a further year of advancing license revenue as a cornerstone of our business model, driven by both volume and size of deals as noted above.

As noted elsewhere in this report, the strong finish to the year contributed to an encouragingly high revenue visibility for 2018. Moreover, the large German order referred to above topped off a strong year for our European business, resulting in the overall proportion of revenues from customers in Europe increasing sharply to almost 39 percent (2016: 29 percent) of total. The majority of the remainder is from customers in North America, with a small but important foothold in Asia, Australia and the Middle East.

A regular feature of our business is a very strong fourth quarter and 2017 was no exception, with over a third of the year's revenue recognized in that quarter. This is sometimes accompanied by a strong second quarter and a quiet third quarter. Overall, in 2017 the second half of the year accounted for 55 percent of revenues (2016: 51 percent and 2015: 60 percent). Over the years, we have frequently referred to the sensitivity of our results to individual license sales and while this effect is reducing as we grow the business, it does remain a feature. Although it does not show the same level of fluctuation, our services business does also show seasonality and last year the second and final quarters were particularly busy, in line with the demands of the volume and individual scale of implementation projects. Other revenue elements are more evenly spread as would be expected from their accounting treatment.

The group's base of recurring business rose above $12m coming into 2018, compared to $9.9m at the start of last year. This comprises maintenance, hosting and cloud services, and some Software as a Service (SaaS) contracts. The vast majority of our license revenue continues to remain perpetual in nature, but we are seeing growing interest in SaaS options. During 2017 we signed three SaaS deals, still representing a relatively modest part of our business but showing more traction. We are also seeing further take-up of our hosting service from new and existing perpetual customers, and we continue to extend the scope of our security certifications to ensure this service remains an attractive proposition. Approximately 25 percent of our active perpetual customers are hosted by Sopheon. Retention of recurring revenue increased to 95 percent by value following two years at 94 percent. This is a key metric for Sopheon, as we believe that building recurring revenue is fundamental to our long-term growth. In this regard we continue to invest in customer satisfaction programs alongside regular service and account management processes to maximize value for our customers.

Reflecting the greater license proportion, gross margin is over 73 percent, ahead of the 70 percent achieved last year, which had greater services intensity. Costs of the professional services organization are included in costs of sales, alongside the costs of our hosting activities and some license royalties for OEM partners. We recruited a number of new consultants in 2016 who contributed to our performance last year, and avoided the need to use product development resources on projects as we had the year before. We believe that a strong services capability is also key to long-term success and win-rate, and we have continued to recruit in this area through 2017 and will continue to do so.

Coming into 2018 and following some early sales bookings at the start of the year, revenue visibility for the year already stands at $19.3m compared to $14.5m a year ago, giving reason for confidence and optimism for the year ahead.

Research and Development Expenditure

Overall expenditure in product development increased by approximately $0.8m to $4.6m in 2017; however, the 2016 amount is after recognizing $0.4m of costs as services cost of sales, as we used product development resources to assist with peaks of service demand that arose during that year. As a result, the actual cost of the product teams rose by $0.4m overall. These amounts can be compared to the headline research and development reported in the income statement showing an increase from $3.9m to $4.3m; the differences are due to the effects of capitalization and amortization of development costs. The additional spend reflects the recruitment of additional development resources during the year including design, architecture and coding expertise and this has resulted in a greater level of investment in line with Sopheon's product roadmap as described elsewhere in this report. This investment is in turn reflected in a higher capitalization rate; the amount of 2017 research and development expenditure that met the criteria of IAS38 for capitalization was $2.5m (2016: $1.9m) offset by amortization charges of $2.2m (2016: $2.0m). These capitalized costs are largely attributable to the group's investment in the Accolade 11.1, 11.2, 11.3 and 12.0 releases.

Other Operating Costs

As a knowledge intensive business, three quarters of Sopheon's costs are payroll and related. Sopheon has a relatively mature and highly qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. For several years through 2016, Sopheon held staffing between 100-115 depending on requirements and natural movement of people in and out of the business. Our focus remains on securing the right mix of people rather than targeting a headcount number; however, as revenue growth has progressed in the last 18 months we have sought to accelerate the acquisition of additional resources. Consequently we ended 2017 with 132 staff compared to 100 two years before. Our insistence on quality though means that we remain somewhat behind plan in this area and continue to target a large number of recruits into 2018 to support the growth trajectory of the business. Although not as visible as the impact of revenue outperformance, slower than expected hiring also contributed to the exceptional profitability in 2017.

The average headcount during 2017 was 125, compared to 110 the year before, leading to higher overall wage costs as reported in Note 7 of the financial statements. Payroll costs in the last three years have also included the cost of our corporate bonus scheme, for which all non-sales staff in the company are eligible. The bonus is linked to the achievement of our annual EBITDA goals. This has contributed to a higher payables balance at each year-end, since the bonuses are not paid until the following year. Bonus costs in a given year are allocated to the relevant categories of the income statement based on employee department.

Specific comments regarding service operations and research and development costs are noted above. Overall costs in the sales and marketing area increased by approximately $1.2m. Roughly half of this was attributable to an increase in resources and marketing expenditures, and the remainder was due to the strong sales performance leading to higher commissions and incentive payments. As with other areas, we are looking to expand this team during 2018.

Headline administration costs have risen by approximately $0.8m, of which roughly $0.3m is due to 2016 exchange gains captured following the UK's referendum decision to leave the European Union. The remaining $0.5m includes additional resources in finance, IT and human resources to keep pace with our growth and also the impact of the notional charge for share option grants, which is allocated entirely to this caption and has increased with the rising share price. With regard to foreign exchange, excluding the impact of one-off events such as the UK referendum, the group aims to incorporate a natural hedge through broadly matching revenues and costs within common currency entities, reducing the need for active currency management. In addition, it is not the group's policy to hedge currency cash holdings, but we do look to keep cash balances in local currency within an entity and to time currency purchases so as to minimize impacts on the individual income statements.

Results

In common with other technology businesses, Sopheon reports EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) as a key indicator of the underlying performance of our business. 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 performance for 2017 rising very strongly, for the third year in succession, to $8.0m, from $5.6m in 2016. As stated elsewhere in this report, we view the 2017 profit performance as exceptional as it combines an unprecedented revenue outperformance with lower than planned costs.

As further described below, during the year the group had facilities with Silicon Valley Bank and also benefited from convertible unsecured loan stock, which was converted into equity in December 2017. This transaction included a compensatory payment of interest resulting in a higher than usual total interest charge of $0.5m (2016: $0.3m). Including the effect of interest, depreciation and amortization, the group reported a profit before tax for the year of $5.1m (2016: $3.0m).

Although Sopheon benefits from accumulated tax losses in a number of jurisdictions this is not universal and accordingly a current tax charge of approximately $0.4m was incurred in 2017 (2016: $0.1m) of which roughly $0.3m arose in Germany and the balance in the United States. In 2016, due to the rising profit trend of the group, we started recognition of the substantial deferred tax asset owned by the business as further detailed in Note 10, and we have extended the scope of that recognition in 2017. Although US corporate tax rates have fallen following the reforms adopted by the US Congress, the overall effect of our policy has resulted in recognition of a further $0.7m (2016: $1.3m) in the current year, of a total potential asset of $13.0m. Altogether this leads to a profit after tax of $5.4m (2015: $4.3m). Profit per ordinary share has also risen to 72 cents (2016: 59 cents).

Dividend

Following the success of the last several years the board has decided to adopt a progressive dividend policy, and proposes a maiden dividend of 2.5 pence per share for the year ended 31 December 2017. Subject to approval by the company's shareholders at the annual general meeting scheduled for 7 June 2018, the dividend will be paid on 6 July 2018 with a record date of 8 June 2018.

Facilities and Assets

Several years ago the group established bank facilities with the London branch of Silicon Valley Bank, comprising a term loan of $0.5m and a $3m revolving line of credit, and these currently extend through January 2019. Both facilities bear interest at rates of 2.75 percent over the Wall Street Prime rate, resulting in a current effective rate of 7.25 percent. The facilities are subject to covenants based on working capital ratios. The drawdown mechanics and interest rates are also subject to working capital ratios. Although there is no immediate requirement for these facilities, we view our developing relationship with Silicon Valley Bank as an important one for the future.

In 2009 and 2011, the company issued a total of £2m of convertible unsecured loan stock ("Loan Stock") to a group of investors including members of the board and senior management team. The Loan Stock had been due to mature on 31 January 2019, carried an interest coupon at a rate of 8 percent per annum, and had a conversion price of 76.5p per ordinary share. At the end of 2017 the remaining holders of the Loan Stock agreed to reconstitute the instrument such that it would automatically convert to equity on 22 December 2017, at the conversion price stated above, resulting in the issue of approximately 2.5m new Ordinary Shares. This change improved the profile of the group's year-end balance sheet and simplified the capital structure, as well as eliminating the interest charge going forward. In conjunction with this amendment, a one-off interest payment of approximately $0.2m was made to holders of the Loan Stock in recognition of the loss of their interest and repayment rights as a result of the early conversion.

Intangible assets stood at $5.8m (2016: $5.5m) at the end of the year. This includes (i) $4.8m being the net book value of capitalized research and development (2016: $4.5m) and (ii) an additional $1.0m (2016: $1.0m) being goodwill arising on acquisitions completed in previous years. As shown above in our discussion of research and development costs, capitalization and amortization have been broadly in balance for a number of years. Our spend on tangible fixed assets is increasing in line with staffing and revenues, and this resulted in net book value rising to $0.4m at the end of the year (2016: $0.2m).

Consolidated net assets at the end of the year stood at $18.6m (2016: $10.4m), an increase of $8.2m. Over half of this increase is attributable to an improvement in the net current asset position, on the back of another year of strong operational performance. A further $2.6m relates to the conversion of the Loan Stock, and $0.7m to the increased recognition of the deferred tax asset, with the remaining $0.5m due to the increase in tangible and intangible fixed assets. Within the net current asset position, gross cash resources at 31 December 2017 amounted to $12.7m (2016: $10m). Approximately $8.2m was held in US Dollars, $4.0m in Euros and $0.5m in Sterling. Net cash, stated after subtracting debt, rose from $4.2m the previous year to $9.5m at the end of 2017.

Approved by the board on 21 March 2018 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	Finance Director
	Stuart A. Silcock FCA	Non-executive Director
	Daniel Metzger	Non-executive Director

Please refer to the inside back cover of this report for details of the professional background of each director.

Secretary
Arif Karimjee

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Registered in England and Wales
No. 3217859

Auditors
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London W1U 7EU

Principal Bankers and Financiers

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Silicon Valley Bank
Alphabeta
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Solicitors and Attorneys

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Fred Roeskestraat 100
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The Netherlands

AIM Nominated Adviser and Broker
finnCap Limited
60 New Broad Street
London EC2M 1JJ

Registrars
Link Asset Services
65 Gresham Street
London EC2V 7NQ

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, D. Metzger 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 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. 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 2017 $	*Bonus 2017* $	*Benefits 2017* $	*Total 2017* $	*Total 2016* $
Executive Directors					
B.K. Mence	195,335	91,446	9,811	296,592	302,803
A.L. Michuda	311,500	150,500	9,703	471,703	457,271
A. Karimjee	173,591	65,323	4,388	243,302	236,051
Non-executive Directors					
S.A. Silcock	30,458	-	-	30,458	29,839
D. Metzger	30,458	-	-	30,458	29,839
	741,342	307,269	23,902	1,072,513	1,055,803

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 2016 and 2017 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 2017 contributions of $9,073, $7,956 and $8,058 (2016: $8,138, $5,935 and $8,436) 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 2012, 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 were as follows:

	Share Options		*Ordinary Shares*		*8% Convertible Loan Stock*	
At 31 December	2017	2016	2017	2016	2017	2016
B.K. Mence	24,250	24,250	2,294,927	1,447,576	-	£640,000
A.L. Michuda	240,000	215,000	88,823	30,000	-	£45,000
A. Karimjee	75,000	63,350	85,294	50,000	-	£27,000
S.A. Silcock	-	-	541,064	274,627	-	£200,000
D. Metzger	-	-	5,000	5,000	-	-

With respect to the interests stated above for B.K. Mence, S.A Silcock and A. Karimjee, their respective spouses are the beneficial owners of 17,250, 10,375 and 35,294 ordinary shares each. Accordingly, B.K. Mence's personal interest is in 2,277,677, S.A. Silcock in 530,689 and A. Karimjee in 50,000 ordinary shares.

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

	Date of Grant	*Exercise Price*	*At 31 December 2016*	*Granted During Year*	*Expired During Year*	*At 31 December 2017*
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.L. Michuda	8 April 2016	87.5p	15,120	-	-	15,120
A.L. Michuda	15 February 2017	467.5p	-	25,000	-	25,000
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
A. Karimjee	8 April 2016	87.5p	5,850	-	-	5,850
A. Karimjee	15 February 2017	467.5p	-	11,650	-	11,650

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 2017 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 2017 was 360p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 324p to 500p. 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 21 March 2018 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 for complete Enterprise Innovation Management solutions. The Chairman's Statement on page 6 includes 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 group's financial statements are presented in US Dollars. The board is pleased to recommend a final dividend in respect of the year ended 31 December 2017 of 2.5 pence per share, amounting to £250,000.

Directors

The directors who served during the year are disclosed in the Report on Directors' Remuneration.

Corporate Governance

The Sopheon board is committed to high standards of corporate governance and aims to follow appropriate governance practice, although as a company listed on AIM the company is not subject to the requirements of the UK Corporate Governance Code. The board currently comprises three executive directors and two 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 2017, 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 17.

Post Balance Sheet Events

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

Research and Development

A summary of research and development activities and the key benefits and enhancements to the Sopheon Accolade solution is set out in the Strategic Report. A summary of the expenditure incurred and the accounting treatment thereof is set out in the Financial Report.

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 consistently growing recurring revenue base should also improve revenue predictability.

Sopheon's prospects for 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 in connection with 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, should support and maintenance service level agreements fail to meet agreed criteria, or should the security features of its software or hosting services fail. Sopheon has sought to protect itself from such risks through excellent development methodologies and high quality operating procedures, 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 21 March 2018 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*
Rivomore Limited and Myrtledare Corp.	2,495,101	24.9
B.K. Mence (director)	2,294,927	22.9
S.A. Silcock (director)	541,064	5.4

S.A. Silcock's and B.K. Mence's interests represent direct beneficial holdings as well as those of their families.

Approved by the board on 21 March 2018 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.

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

Opinion

We have audited the financial statements of Sopheon plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company statements of financial position, the consolidated and company cash flow statements and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorized for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our Response
Revenue Recognition	
See accounting policy in Note 2 on page 33. The group, as a software business, generates revenue primarily from the sale of licenses, related maintenance/support contracts and service income. We considered there to be a significant audit risk arising from inappropriate or incorrect recognition of revenue. The risk of material misstatement in relation to revenue recognition concerns the recognition around the year-end, particularly in relation to license sales. License sales require codes to be provided to the customer, which enables access to the Accolade software. There is also a risk that all revenue streams have not been recognized in line with the revenue recognition policy of Sopheon, as detailed within Note 2 of these financial statements, and that the policy itself is not in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Revenue recognition is one of the primary focuses of the engagement team. During the planning phase, discussions are held in relation to the revenue approach, and the senior members of the audit team are responsible for the procedures that are performed around revenue. Due to this focus, revenue recognition is considered to be a key audit matter.	In order to assess the appropriateness of the processes and controls in place that impact upon revenue recognition, we performed walkthroughs. These walkthroughs involved understanding the design, implementation and operating effectiveness of the controls over the group's revenue cycle. Our audit procedures included assessing the appropriateness of the revenue recognition policy, in line with IFRS as adopted by the European Union, with particular given to IAS 18. For each of the three revenue streams, licenses, maintenance and service revenues, we selected a sample of key contracts for testing. We assessed whether the revenue recognized was in line with the contractual terms, the group's revenue recognition policy and the relevant accounting standards. To address the risk of cut-off in relation to license contract revenue recognized in the year, we obtained support for the fact that binding contracts were entered into before the year-end, and therefore were recognized in the appropriate period. For the maintenance and service contracts that we selected, we ensured the methodology applied in accounting for accrued and deferred revenue on these contracts was in line with the contractual terms and stage of completion of the project, where appropriate. Finally, we ensured that of the small, yet growing number of SaaS contracts supplied by the group, a sample of contracts were obtained, and the revenue recognition in relation to these contracts was confirmed as appropriate.

Risk	Our Response

Capitalized Development Costs

Risk

See accounting policy in Note 2 and intangible assets Note 14 on pages 33 and 45 respectively.

The group capitalizes costs in relation to the development of the software provided to its clients, being the Accolade platform.

In accordance with IAS 38, management's policy is to capitalize development expenditure on internally developed software products if the costs can be measured reliably and the resulting asset meets the following criteria:

- It is technically feasible to develop the product
- Adequate resources are available to complete the development
- There is an intention and ability to complete and sell the product
- It is controlled by the group
- Future economic benefits are expected to flow to the group
- It is identifiable

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

Capitalized development costs are amortized over the period within which the group expects to benefit from selling the product developed. This is deemed to be four years.

There is a risk that the criteria outlined under IAS 38 are not met and therefore development costs are incorrectly capitalized.

The senior members of the audit team are responsible for completing the work in relation to capitalized development costs. The testing strategy involves communications with individuals working out of different components within the group, and regular visits to foreign locations. Both of these factors indicate that this is a key audit matter due to the focus of resources and the time apportioned to this area of the audit.

Our Response

We considered whether the development costs capitalized met the criteria for capitalisation under IAS 38 and subsequently whether the mechanics over capturing time spent and translating that cost into an accounting entry operated accurately.

Any capitalized projects with a material net book value ("NBV") on the balance sheet were selected for substantive testing. An understanding was gained over the stage of development of the product and the ability for the asset to generate future economic benefits for the business.

For each intangible asset sampled all inputs were agreed back to supporting documentation ensuring the existence and valuation of the intangible asset created.

As an extension of the above, we revisited management's estimate of the amortization period applied to the asset, establishing whether any requirements of impairment exist in relation to older versions of Accolade.

Finally, in line with IAS 36 we ensured that assets that were not yet available for use (such as projects in development) had undertaken an impairment review as required.

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined materiality for the group financial statements as a whole to be $285,000 (2016: $347,000) which represents 1 percent of revenue (2016: 1.5% of revenue). Materiality for the parent was set at 90% of group materiality, being $252,000. We agreed with the audit committee that we would report to them misstatements identified during our audit above $14,000 (2016: $17,350).

We used revenue as a benchmark as this is the primary KPI which is used to address the performance of the business by the board, and is consistently referenced within the RNS announcements released by the group, in addition to new contract wins, both of which feed in to the revenue figure.

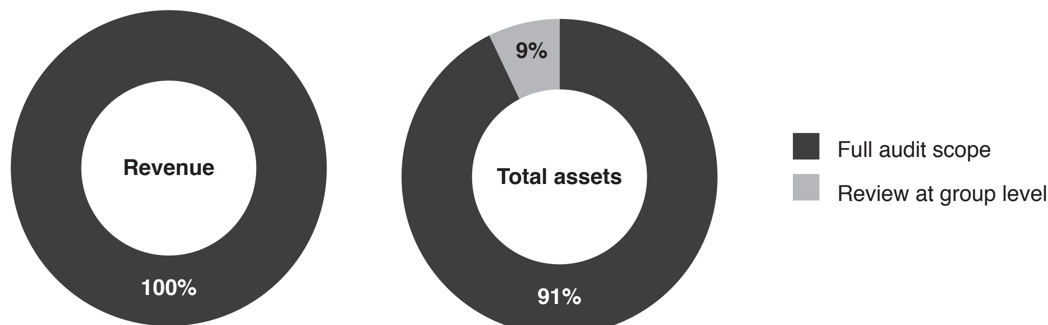
An Overview of the Scope of Our Audit

Our group audit was scoped by obtaining an understanding of the group and its environment and assessing the risks of material misstatement at the group level. The group consists of seven entities based in Europe and North America. There are two entities based in the UK, one being the holding company. Further to this there are two trading entities incorporated in Europe based in Germany and Holland, with the remaining three trading entities incorporated in the USA.

Based on our assessment of the group and consistent with the prior year, we focused our group audit scope primarily over the significant components, being Sopheon plc, Sopheon UK Limited, Sopheon GmbH and Sopheon Corporation, Minnesota. For these significant components we completed detailed audit testing, and performed desktop reviews for the remaining group entities.

At the parent entity level we also tested the consolidation process including consolidation adjustments and journals, performed our work on all key judgements areas and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

The graphs below demonstrate the coverage of our audit work over the components within the group. Revenue has been tested in detail across each entity within the group, regardless of the level of review performed in relation to that entity. The full scope audit work performed has therefore provided coverage over 100 percent of the group from a revenue perspective, and also covers 91 percent of the total assets of the group. The elements of the group that were not covered by full scope work were reviewed to group materiality.



Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on Which We are Required to Report by Exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

21 March 2018

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 2017

	Notes	*2017* *$'000*	*2016* *$'000*
Revenue	3	28,534	23,203
Cost of sales		(7,591)	(6,872)
Gross profit		20,943	16,331
Sales and marketing expense		(7,730)	(6,565)
Research and development expense		(4,266)	(3,881)
Administrative expense		(3,350)	(2,562)
Operating profit		5,597	3,323
Finance income	8	6	1
Finance expense	9	(468)	(290)
Profit before tax		5,135	3,034
Income tax credit	10	243	1,275
Profit for the year	5	5,378	4,309
Earnings per share			
Basic (US cents)	12	71.92c	59.05c
Fully diluted (US cents)	12	55.92c	44.35c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 *$'000*	*2016* *$'000*
Profit for the year	5,378	4,309
Other comprehensive expense		
Exchange differences on translation of foreign operations	31	336
Total comprehensive income for the year	5,409	4,645

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2017

	Notes	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Assets					
Non-current Assets					
Property, plant and equipment	13	417	241	-	-
Intangible assets	14	5,821	5,469	-	-
Investments in subsidiaries	15	-	-	8,268	7,528
Deferred tax asset	10	2,010	1,338	-	-
Other receivables	16	19	19	4,664	-
Total non-current assets		8,267	7,067	12,932	7,528
Current Assets					
Trade and other receivables	17	15,387	9,696	96	45
Cash and cash equivalents	18	12,729	10,061	1,492	1,197
Total current assets		28,116	19,757	1,588	1,242
Total assets		36,383	26,824	14,520	8,770
Liabilities					
Current Liabilities					
Trade and other payables	19	6,239	4,428	862	516
Borrowings	20	3,171	3,167	-	-
Deferred revenue		8,345	6,224	-	-
Total current liabilities		17,755	13,819	862	516
Non-current Liabilities					
Borrowings	20	28	2,648	-	2,448
Total non-current liabilities		28	2,648	-	2,448
Total liabilities		17,783	16,467	862	2,964
Net assets		18,600	10,357	13,658	5,806
Equity					
Share capital	23	3,079	2,375	3,079	2,375
Capital reserves	24	7,720	5,843	7,720	5,843
Translation reserve		364	333	(1,380)	(2,199)
Retained profits/(losses)		7,437	1,806	4,239	(213)
Total equity		18,600	10,357	13,658	5,806

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The profit dealt with in the financial statements of the parent company for the year ended 31 December 2017 was $4,199,000 (2016: loss of $390,000).

Approved by the board and authorized for issue on 21 March 2018.

Barry K. Mence
Director

Arif Karimjee
Director

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Group 2017 $'000	Group 2016 $'000	Company 2017 $'000	Company 2016 $'000
Operating Activities					
Profit/(loss) for the year		5,378	4,309	4,199	(390)
Adjustments for:					
Finance income	8	(6)	(1)	-	-
Finance costs	9	468	290	402	221
Depreciation of property, plant and equipment	13	206	189	-	-
Amortization and impairment of intangible assets	14	2,167	2,043	-	-
Share-based payment expense		173	62	173	62
Deferred tax credit		(672)	(1,338)	-	-
Operating cash flows before movements in working capital		7,714	5,554	4,774	(107)
Intra-group credits and charges		-	-	(674)	(529)
Decrease/(increase) in provisions against intra-group loans		-	-	(5,060)	83
Increase in receivables		(5,289)	(2,208)	(51)	(22)
Increase/(decrease) in payables		3,241	2,070	136	(20)
Net cash generated from/(used in) operating activities		5,666	5,416	(875)	(595)
Investing Activities					
Finance income	8	6	1	-	-
Purchases of property, plant and equipment	13	(367)	(250)	-	-
Development costs capitalized	14	(2,519)	(1,933)	-	-
Advance of loans to group companies		-	-	(446)	(919)
Repayment of loans by group companies		-	-	1,776	955
Net cash (used in)/generated from investing activities		(2,880)	(2,182)	1,330	36
Financing Activities					
Issues of shares		34	107	34	107
(Repayment)/drawdown of borrowings		(168)	177	-	-
Increase in line of credit		-	-	-	-
Interest paid		(261)	(290)	(192)	(221)
Net cash used in financing activities		(395)	(6)	(158)	(114)
Net increase/(decrease) in cash and cash equivalents		2,391	3,228	297	(673)
Cash and cash equivalents at the beginning of the year		10,061	7,046	1,197	1,627
Effect of foreign exchange rate changes		277	(213)	(2)	243
Cash and cash equivalents at the end of the year	18	12,729	10,061	1,492	1,197

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

Group

	Share Capital $'000	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Profits/ (Losses) $'000*	*Total $'000*
At 1 January 2016	2,354	5,751	(3)	(2,571)	5,531
Profit for the year	-	-	-	4,309	4,309
Exchange differences on translation of foreign operations	-	-	336	-	336
Total comprehensive income for the year	-	-	336	4,309	4,645
Issues of shares	21	98	-	-	119
Recognition of share-based payments	-	62	-	-	62
Lapse or exercise of share options		(68)	-	68	-
At 1 January 2017	2,375	5,843	333	1,806	10,357
Profit for the year	-	-	-	5,378	5,378
Exchange differences on translation of foreign operations	-	-	31	-	31
Total comprehensive income for the year	-	-	31	5,378	5,409
Issues of shares	704	1,986	-	-	2,690
Recognition of share-based payments	-	173	-	-	173
Acquisition of shares by Esot (Note 24)	-	(29)	-	-	(29)
Lapse or exercise of share options and warrants	-	(90)	-	90	-
Transfer of equity conversion reserve	-	(163)	-	163	-
At 31 December 2017	3,079	7,720	364	7,437	18,600

The translation reserve represents accumulated differences on the translation of assets and liabilities of foreign operations. Full details of capital reserves are set out in Note 24.

Company

	Share Capital $'000	*Capital Reserve $'000*	*Translation Reserve $'000*	*Retained Losses $'000*	*Total $'000*
At 1 January 2016	2,354	5,751	(994)	109	7,220
Loss and total comprehensive loss for the year	-	-	(1,205)	(390)	(1,595)
Issues of shares	21	98	-	-	119
Recognition of share-based payments	-	62	-	-	62
Lapsing or expiry of share options	-	(68)	-	68	-
At 1 January 2017	2,375	5,843	(2,199)	(213)	5,806
Profit and total comprehensive income for the year	-	-	819	4,199	5,018
Issues of shares	704	1,986	-	-	2,690
Recognition of share-based payments	-	173	-	-	173
Acquisition of shares by Esot (Note 24)	-	(29)	-	-	(29)
Lapse or exercise of share options and warrants	-	(90)	-	90	-
Transfer of equity conversion reserve	-	(163)	-	163	-
At 31 December 2017	3,079	7,720	(1,380)	4,239	13,658

1. GENERAL INFORMATION

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

An amendment to IAS 7 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The group’s liabilities arising from financing activities has resulted in a reconciliation of liabilities disclosed for the first time in Note 20. Apart from this additional disclosure, the application of this amendment has had no impact on the Group’s consolidated financial statements. 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 expected impacts of IFRS 9, IFRS 15, IFRS 16 are described under relevant headings below. 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.

While the functional currency of the parent company is Sterling, the group’s financial statements have been presented in US Dollars. The directors believe this better reflects the underlying nature of the business. Approximately two-thirds of the group’s revenue and operating costs are denominated in US Dollars. The exchange rates used for translation of Sterling amounts are 1.3510 US Dollars to British Pounds Sterling as at 31 December 2017, and 1.2961 US Dollars to British Pounds Sterling as the average rate prevailing during 2017.

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.

Basis of Preparation

The consolidated financial statements incorporate the financial statements of the parent company Sopheon plc and the financial statements of the subsidiaries controlled by the group as defined by IFRS 10 Consolidated Financial Statements, as shown in Note 15. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. 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. 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, with there being no business combinations since 1 January 2013. The identifiable assets, liabilities and contingent liabilities of the entity being acquired that meet the conditions for recognition are recognized at their fair values on the date of acquisition.

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

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated impairment losses.

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

Revenue Recognition

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

Sales of perpetual 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. Sales of software subscription contracts, sometimes known as software-as-a-service contracts, are deferred and recognized over the period of the agreements.

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.

Impact of IFRS 15

IFRS 15 Revenue from Contracts with Customers will supersede the current revenue recognition guidance including IAS 18 Revenue and related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange. Under IFRS 15, the entity recognizes revenue when (or as) a performance obligation is satisfied, which occurs when control of the goods or services underlying the relevant performance obligation is transferred to the customer. The standard contains very prescriptive guidance in relation to the identification of performance obligations, the considerations of whether a company is acting as principal or agent, as well as licensing application guidance.

In assessing sales of software licenses, the licensing application guidance in IFRS 15 is to determine whether the license grants customers a right to use the underlying intellectual property (which would result in transfer of control at a point in time) or a right to access the intellectual property (which would result in transfer of control over time). The directors have assessed that the methods currently used by the group to determine whether significant obligations remain are consistent with these requirements. As regards maintenance, hosting and post-contract support agreements, as well as implementation and consultancy services and software-as-a-service contracts, the directors have assessed that these performance obligations are satisfied over time and that the methods currently used to measure progress will continue to be appropriate.

Apart from providing more extensive disclosures on the group's revenue transactions, the directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or the financial performance of the group.

Leases

Assets held under finance leases are recognized as assets with the corresponding liability to the lessor recognized as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Impact of IFRS 16

Adoption of IFRS 16 Leases will result in the group recognizing right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the group does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment. The group will only recognize leases on balance sheet as at 1 January 2019. In addition, it will measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date. At 31 December 2017 operating lease commitments amounted to $1,890,000. Instead of recognizing an operating expense for its operating lease payments, the group will instead recognize interest on its lease liabilities and amortization on its right-of-use assets. This will increase reported EBITDA by the amount of its current operating lease cost.

Interest on Borrowings

All interest on borrowings is recognized in the income statement using the effective interest rate method.

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 plans.

Foreign Currencies

The individual financial statements of each group entity are prepared 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. The same approach is used to translate the financial statements of the company on a stand-alone basis from Sterling to US Dollars. The equity of the company and group is retranslated into the presentational currency at its historic rate.

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. Deferred tax assets are recognized only to the extent that the level and timing of taxable profits can be measured and it is probable that these 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.

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 23, the group has also issued warrants to certain financing institutions which are also treated as equity-settled share-based payments.

Financial Instruments

1. Financial Assets

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.

Impact of IFRS 9

IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The group plans to adopt the new standard on the required effective date. The group has performed an initial assessment of all three aspects of IFRS 9, and overall the group expects no significant impact on its statement of financial position and equity. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the group in 2018 when the group will adopt IFRS 9.

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, and then transferred to retained earnings upon conversion or maturity.

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, its capital reserves (as set out in Note 24), and its retained earnings.

Significant Accounting Estimates and Judgments

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

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.

Where sales contracts involve multiple elements, the entire fee is allocated to each of the individual elements based on management's best estimate of each element's fair value. In assessing the fair value, management consider factors such as what the individual elements would be sold at on a stand-alone basis and the cost of satisfying a performance obligation plus an appropriate margin.

3. SEGMENTAL ANALYSIS

All of the group's revenue in respect of the years ended 31 December 2017 and 2016 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. 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 2017	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	17,274	11,260	28,534
Operating profit before interest and tax	5,133	464	5,597
Profit before tax	5,077	58	5,135
Finance income	6	-	6
Finance expense	(62)	(406)	(468)
Depreciation and amortization	(2,326)	(47)	(2,373)
EBITDA	7,459	511	7,970
Balance Sheet			
Fixed asset additions	254	112	366
Capitalization of internally generated development costs	2,519	-	2,519
Total assets	25,902	10,481	36,383
Total liabilities	(12,217)	(5,566)	(17,783)

Year ended 31 December 2016	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	17,172	6,031	23,203
Operating profit/(loss) before interest and tax	4,136	(813)	3,323
Profit/(loss) before tax	4,072	(1,038)	3,034
Finance income	-	1	1
Finance expense	(64)	(226)	(290)
Depreciation and amortization	(2,191)	(41)	(2,232)
EBITDA/(LBITDA)	6,327	(772)	5,555
Balance Sheet			
Fixed asset additions	214	36	250
Capitalization of internally generated development costs	1,933	-	1,933
Total assets	22,211	4,613	26,824
Total liabilities	(11,046)	(5,421)	(16,467)

One customer, located in North America, accounted for approximately 7 percent of the group's revenues in 2017. The same customer accounted for approximately 20 percent of the group's revenues in 2016.

External revenues in 2017 exclude inter-segmental revenues which amounted to $4,007,000 (2016: $1,715,000) for North America and $479,000 (2016: $378,000) for Europe.

Revenues attributable to customers in North America in 2017 amounted to $16,697,000 (2016: $16,458,000). Revenue attributable to customers in the rest of the world amounted to $11,837,000 (2016: $6,745,000) of which $11,038,000 (2016: $6,109,000) was attributable to customers in Europe.

4. 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:

	2017 *$'000*	*2016* *$'000*
Profit for the year before tax	5,135	3,034
Interest payable	468	290
Interest receivable	(6)	(1)
Amortization of intangible assets	2,167	2,043
Depreciation of property, plant and equipment	206	189
EBITDA	7,970	5,555

5. PROFIT FOR THE YEAR

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

	2017 *$'000*	*2016* *$'000*
Net foreign exchange (gains)/losses	(6)	(312)
Research and development costs (excluding amortization)	2,099	1,838
Amortization of intangible assets	2,167	2,043
Depreciation of property, plant and equipment	206	189
Operating lease rentals – land and buildings	562	551
Operating lease rentals – other	103	96

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.

	2017 *$'000*	*2016* *$'000*
Audit of the financial statements of the group	64	66
Audit of the financial statements of the UK subsidiary	5	5
Review of interim financial information	16	16
Other services	13	-
Tax compliance services	14	20

7. STAFF COSTS

	2017 *$'000*	*2016* *$'000*
Wages and salaries	14,439	12,590
Social security costs	1,171	991
Pension contributions	369	269
Employee benefits expense	823	850
	16,802	14,700

Included within the above are staff costs capitalized as development expenditure amounting to $2,519,000 (2016: $1,933,000). Included within wages and salaries are bonus and sales commission costs amounting to $2,538,000 (2016: $2,094,000).

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

	2017 *Number*	*2016* *Number*
Development and operations	83	71
Sales and management	42	39
	125	110

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

The remuneration of all directors was as follows:

	2017 *$'000*	*2016* *$'000*
Fees and emoluments	1,073	1,056
Pension contributions	25	23
	1,098	1,079

No director exercised share options during the year (2016: None). Pension contributions are to personal defined contribution schemes and have been made for three directors (2016: three) who served during the year.

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

Staff costs in the parent company amounted to $585,000 including bonuses (2016: $453,000). The average monthly number of staff during the year included 1 full time and 2 part time (2016: 1 and 2).

8. FINANCE INCOME

	2017 *$'000*	*2016* *$'000*
Income on financial assets measured at amortized cost Interest income on bank deposits	6	1

9. FINANCE EXPENSE

	2017 *$'000*	*2016* *$'000*
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(468)	(290)

Included in interest expense is a one-off payment to holders of the group's 8% Convertible Loan Stock amounting to $201,000 in recognition of the loss of their interest and repayment rights as a result of the early conversion.

10. INCOME TAX CREDIT

	2017 $'000	2016 $'000
Income tax credit for the year – current tax	243	1,275

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

	2017 $'000	2016 $'000
Profit before tax	5,135	3,034
Tax charge at the UK corporation tax rate of 19.25% (2016: 20%)	(988)	(607)
Adjustment for differing rates of corporate taxation in overseas jurisdictions	(168)	(428)
Tax effect of expenses that are not deductible in determining taxable losses	(76)	(50)
Temporary differences arising from the capitalization and transfer of development investments	70	224
Utilization of prior year losses	733	798
Current tax expense for the year	(429)	(63)
Recognition of deferred tax asset	672	1,338
Total income tax credit for the year	243	1,275

The current tax expense represents US Alternative Minimum Tax ("AMT"), which is payable by the group's US subsidiaries notwithstanding the availability of tax losses from prior years, and German corporation tax payable by Sopheon GmbH.

The deferred tax income represents the recognition of a deferred tax asset arising from historic trading losses of the group's US and UK subsidiaries.

There is no tax arising on other comprehensive income.

Deferred Tax Asset

The group has a potential deferred tax asset arising from its unrelieved trading losses, which has been partially recognized during the year, but the remainder of which has not been recognized owing to uncertainty as to the level and timing of taxable profits in the future.

The deferred tax asset which has been recognized in the financial statements is as follows:

	2017 $'000	2016 $'000
Amount recognized during the year	672	1,338
Deferred tax asset at 31 December 2017	2,010	1,338

The unrecognized deferred tax asset is made up as follows:

	2017 $'000	2016 $'000
Shortfall of tax depreciation compared to book depreciation	114	146
Effect of timing differences arising from capitalization of internally generated development costs	(1,010)	(1,560)
Unrelieved trading losses	10,943	17,448
Unrecognized deferred tax asset at 31 December 2017	10,047	16,034

At 31 December 2017, tax losses estimated at $63m (2016: $64m) were available to carry forward by the Sopheon group, arising from historic losses incurred. These losses have given rise to a deferred tax asset of $2.0m (2016: $1.3m) and a further potential deferred tax asset of $10.9m (2016: $17.4m), based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of $9.0m, representing $1.9m of the potential deferred tax asset (2016: $9.4m and $3.3m respectively) represents pre-acquisition tax losses of 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/(LOSS) 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 2017 was $4,199,000 (2016: loss of $390,000). The parent company's result for 2017 includes the partial recognition amounting to $4,664,000 of long-term loans due to the parent company from subsidiary companies, which previously had been subject to full provision. Advantage has been taken of Section 408 of the Companies Act 2006 not to present an income statement for the parent company.

12. EARNINGS PER SHARE

	2017	*2016*
	$'000	*$'000*
Basic earnings per share		
Profit after tax	5,378	4,309
	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,478	7,297
	$'000	*$'000*
Diluted earnings per share		
Profit after tax	5,378	4,309
Reduction in interest expense in respect of convertible loan stock	399	217
Diluted profit after tax	5,777	4,526
	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	10,331	10,205

For the purpose of calculating the diluted earnings per ordinary share in 2017 and 2016, the profit attributable to ordinary shareholders is adjusted on the assumption that the group's convertible loan stock was converted into ordinary shares at 1st January in the relevant year, and that options to subscribe for Sopheon shares at prices below the average share price prevailing during the year were exercised at that date (or, if later, on the date of grant).

Diluted earnings per share are calculated in respect of the convertible loan stock, by adjusting earnings for the amount of interest which would cease to be payable following conversion and by adjusting the number of shares in issue by the number of shares which would fall to be issued on conversion. The amount of the adjustment in respect of 2017 also includes the additional interest payment of $201,000 to holders of the convertible loan stock in consideration for the early conversion of the stock in December 2017, full details of which are set out in Note 20.

In respect of outstanding 745,589 share options (details of which are set out in Note 28), the treasury stock method is used, assuming that the proceeds from exercise of options at strike prices below the average market price for Sopheon shares during the year are reinvested in treasury shares at the average price prevailing during the year.

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment*	*Furniture & Fittings*	*Total*
	$'000	*$'000*	*$'000*
Cost			
At 1 January 2016	1,880	360	2,240
Additions	245	5	250
Exchange differences	(17)	(2)	(19)
At 1 January 2017	2,108	363	2,471
Additions	286	81	367
Exchange differences	30	19	49
At 31 December 2017	2,424	463	2,887
Accumulated Depreciation			
At 1 January 2016	1,722	337	2,059
Depreciation charge for the year	170	19	189
Exchange differences	(15)	(3)	(18)
At 1 January 2017	1,877	353	2,230
Depreciation charge for the year	183	23	206
Exchange differences	24	10	34
At 31 December 2017	2,084	386	2,470
Carrying Amount			
At 31 December 2017	340	77	417
At 31 December 2016	231	10	241

Company

The company has no property, plant and equipment.

14. INTANGIBLE ASSETS

	Development Costs (Internally Generated) $'000	*Goodwill $'000*	*Total $'000*
Cost			
At 1 January 2016	19,713	1,022	20,735
Additions (internally generated)	1,933	-	1,933
At 1 January 2017	21,646	1,022	22,668
Additions (internally generated)	2,519	-	2,519
At 31 December 2017	24,165	1,022	25,187
Amortization			
At 1 January 2016	15,156	-	15,156
Charge for the year	2,043	-	2,043
At 1 January 2017	17,199	-	17,199
Charge for the year	2,167	-	2,167
At 31 December 2017	19,366	-	19,366
Carrying Amount			
At 31 December 2017	4,799	1,022	5,821
At 31 December 2016	4,447	1,022	5,469

The amortization period for the internally generated development costs relating to the group's software products is four years. 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, treated as a single cash-generating unit.

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 2016.

Company
The company has no intangible assets.

15. INVESTMENT IN SUBSIDIARIES

	Company $'000
At cost less amounts provided	
At 31 December 2016	7,528
Exchange difference	740
At 31 December 2017	8,268

Details of the company's subsidiaries at 31 December 2017 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*	*Proportion of Voting Rights Held*	*Nature of Business*
Sopheon Corporation 3001 Metro Drive Bloomington, MN 55425, USA	Common Stock	100%	Software sales and services
Sopheon Corporation 6870 W 52nd Avenue Arvada, CO 80002, USA	Common Stock	100%	Software development and sales
Alignent Software, Inc. 3001 Metro Drive Bloomington, MN 55425, USA	Common Stock	100%	Software sales and services
Sopheon NV Kantoorgebouw Officia 1 De Boelelaan 7, 1083 HJ Amsterdam, The Netherlands	Ordinary Shares	100%	Software sales and services
Sopheon UK Ltd Dorna House One, 50 Guildford Road West End GU24 9PW, UK	Ordinary Shares	100%	Software sales and services
Sopheon GmbH Lise-Meitner-Str. 10, D-64293 Darmstadt, Germany	Ordinary Shares	100%	Software sales and services
Orbital Software Holdings plc Saltire Court, 20 Castle Terrace Edinburgh EH1 2EN, UK	Ordinary Shares	100%	Holding company
Orbital Software Inc.† 3001 Metro Drive Bloomington, MN 55425, USA	Common Stock	100%	Dormant
Sopheon Edinburgh Ltd† Saltire Court, 20 Castle Terrace Edinburgh EH1 2EN, UK	Ordinary Shares	100%	Dormant
Orbital Software Europe Ltd† Saltire Court, 20 Castle Terrace Edinburgh EH1 2EN, UK	Ordinary Shares	100%	Dormant
Network Managers (UK) Ltd* Dorna House One, 50 Guildford Road West End GU24 9PW, UK	Ordinary Shares	100%	Dormant
AppliedNet Ltd* Dorna House One, 50 Guildford Road West End GU24 9PW, UK	Ordinary Shares	100%	Dormant
Future Tense Ltd* Dorna House One, 50 Guildford Road West End GU24 9PW, UK	Ordinary Shares	100%	Dormant
Polydoc Ltd Dorna House One, 50 Guildford Road West End GU24 9PW, UK	Ordinary Shares	100%	Dormant
Applied Network Technology Ltd* Dorna House One, 50 Guildford Road West End GU24 9PW, UK	Ordinary Shares	100%	Employee Share Ownership Trust

16. OTHER RECEIVABLE

	Group		Company	
	2017 *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Other receivable	19	19	-	-
Amounts due from subsidiary undertakings (net of provisions)	-	-	4,664	-
	19	19	4,664	-

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

A partial provision of $47,681,000 has been made against amounts totaling $52,345,000 (2016: full provision of $48,386,000) owed to the parent company by subsidiary undertakings, which are due after more than one year and are subordinated to the claims of all other creditors.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Trade receivables	14,205	8,655	-	-
Other receivables	57	50	81	42
Total receivables	14,262	8,705	81	42
Prepayments	743	648	15	3
Accrued income	382	343	-	-
	15,387	9,696	96	45

Trade and other receivables are stated net of allowances totaling $Nil (2016: $Nil) for estimated irrecoverable amounts. The directors consider that the carrying amount of trade and other receivables approximates to their fair value

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2017 *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Cash at bank	3,977	9,253	1,492	1,197
Short-term bank deposits	8,752	808	-	-
	12,729	10,061	1,492	1,197

Cash and cash equivalents 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 $33,000 (2016: $30,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Trade payables	1,126	967	71	28
Other payables	373	294	135	128
Tax and social security costs	1,148	230	-	-
Accruals	3,592	2,937	656	360
	6,239	4,428	862	516

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	
	2017 *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Current Loans and Borrowings				
Line of credit	3,000	3,000	-	-
Loan notes (current portion)	171	167	-	-
Total current loans and borrowings	3,171	3,167	-	-
Non-current Loans and Borrowings				
Loan notes (non-current portion)	28	200	-	-
8% convertible loan stock 2019	-	2,448	-	2,448
Total non-current loans and borrowings	28	2,648	-	2,448
Total loans and borrowings	3,199	5,815	-	2,448

The following is an analysis of the group's movements in loans and borrowings, analyzed between cash and non-cash changes:

	2016 *$'000*	*Cash Flows* *$'000*	*Settled Through Equity* *$'000*	*2017* *$'000*
Line of credit	3,000	-	-	3,000
Loan notes	367	(168)	-	199
8% convertible loan stock	2,448	-	(2,448)	-
Total loans and borrowings	5,815	(168)	(2,448)	3,199

a) Line of Credit and Loan Notes

In February 2014, the group established new credit facilities with Silicon Valley Bank, which were renewed and extended in March 2016. The facilities comprise a $3m revolving line of credit and a term loan of $0.5m repayable in equal installments until maturity at the end of January 2019. Both facilities bear interest at rates of 2.75 percent above the WSJ Prime Rate, resulting in a current effective rate of 7.25 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 2019

The convertible loan stock, all of which was converted into Sopheon shares during the year, was denominated in Sterling and bears interest at a fixed rate of 8 percent per annum.

The nominal amount outstanding at 1 January 2017 was £1,990,000 ($2,448,000). The loan stock was convertible into Sopheon shares, at the rate of 76.5p nominal value of loan stock per Sopheon share, at any time until the final maturity date of 31 January 2019.

On 26 May 2017, £50,000 nominal of loan stock was converted into Sopheon shares, resulting in the issue of 65,359 Sopheon shares.

On 22 December 2017, pursuant to a resolution passed at a meeting of loan stockholders held on 7 December 2017, the remaining £1,940,000 aggregate nominal amount outstanding was converted into Sopheon shares, resulting in the issue of 2,535,947 Sopheon shares. In consideration for the early conversion of the loan stock, loan stockholders received a one-off payment of 8 percent of the nominal value of the loan stock then outstanding.

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 2017 $'000	*Other 2017 $'000*	*Land & Buildings 2016 $'000*	*Other 2016 $'000*
Due within one year	542	105	429	77
Due after one year and within five years	1,348	164	422	168
	1,890	269	851	245

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	*2017* *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Current Financial Assets					
Trade receivables	17	14,205	8,655	-	-
Other receivables	17	57	50	81	42
Amounts due from subsidiary companies	16	-	-	3,472	-
Accrued income	17	743	343	-	-
Cash and cash equivalents	18	12,729	10,061	1,492	1,107
		27,734	19,109	5,045	1,149
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	*2017* *$'000*	*2016* *$'000*	*2017* *$'000*	*2016* *$'000*
Current Financial Liabilities					
Trade payables	19	1,126	967	71	28
Other payables	19	373	294	135	128
Accruals	19	3,592	2,937	656	360
Loans and borrowings	20	3,171	3,167	-	-
		8,262	7,365	862	516
Non-current Financial Liabilities					
Loans and borrowings	20	28	200	-	-
8% convertible loan stock 2019	20	-	2,448	-	2,448
		28	2,648	-	2,448
		8,290	10,013	862	2,964

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 2017, the largest single customer accounted for 7 percent of group revenues (2016: 20 percent of group revenues in respect of the same 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 two years ending 31 December 2017 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 that are current and those that are past due but not impaired:

	Total $'000	Current $'000	Past Due +30 Days $'000	Past Due +60 Days $'000
At 31 December 2017	14,205	11,734	1,192	1,279
At 31 December 2016	8,655	6,021	1,851	783

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:

	2017			2016		
	$'000 Gross Value	$'000 Provision	$'000 Carrying Value	$'000 Gross Value	$'000 Provision	$'000 Carrying Value
Trade receivables						
North America	9,010	-	9,010	7,355	-	7,355
Europe	5,195	-	5,195	1,300	-	1,300
	14,205	-	14,205	8,655	-	8,655

The group records impairment losses on its trade receivables separately from the gross amounts receivable. No impairment losses were recorded during 2017 or 2016. 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 has recognized a proportion of the amounts due to it from its US subsidiaries, taking into account their current profitability and cash holdings. Full details are set out in Note 16 and 27. The company has provided in full for the remaining 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 that 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 2017	*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	1,499	-	-	-	1,499
Line of credit	3,000	-	-	-	3,000
Loan notes	86	86	28	-	200
Future interest – loan notes	5	3	-	-	8
Convertible loan stock	-	-	-	-	-
Future interest – convertible loan stock	210	-	-	-	210
Total financial liabilities	4,800	89	28	-	4,917

At 31 December 2016	*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	1,261	-	-	-	1,261
Line of credit	3,000	-	-	-	3,000
Loan notes	86	86	171	28	371
Future interest – loan notes	11	8	8	-	27
Convertible loan stock	-	-	-	2,448	2,448
Future interest – convertible loan stock	98	98	196	16	408
Total financial liabilities	4,456	192	375	2,492	7,515

Company

At 31 December 2017	*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	206	-	-	-	206
Convertible loan stock	-	-	-	-	-
Future interest – convertible loan stock	210	-	-	-	210
Total financial liabilities	416	-	-	-	416

At 31 December 2016	*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	490	-	-	-	490
Convertible loan stock	-	-	-	2,448	2,448
Future interest – convertible loan stock	98	98	196	16	408
Total financial liabilities	588	98	196	2,464	3,346

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 consist of the US Dollar fixed interest term loan notes amounting to $200,000 at 31 December 2017. This liability does not give rise to interest rate risk. The group also has a revolving US Dollar line of credit, on which $3,000,000 in aggregate was outstanding at 31 December 2017, and which bears interest at a margin of 2.75 percent above the WSJ Prime Rate, currently representing an effective rate of 7.25 percent. Should this rate have increased by 1 percent the annualized effect would have been to increase finance costs by $30,000.

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 2017 was $8,752,000. During 2017 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 an increase 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 in the group's and the company's interest income of $44,000.

The company had no interest bearing bank deposits at the balance sheet date.

e) Currency Risk

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 that 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 that 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 that actually applied during the year and at the year-end.

	2017	*2016*	*2017*	*2016*
	Increase/ (Decrease) in Profit After Tax $'000	*Increase/ (Decrease) in Profit After Tax $'000*	*Effect on Exchange Differences on Translation of Assets and Liabilities of Foreign Operations $'000*	*$'000*
Strengthening of Sterling in US Dollar terms by 10c	(33)	33	98	(172)
Weakening of Sterling in US Dollar terms by 10c	34	(33)	(98)	166
Strengthening of Euro in US Dollar terms by 10c	326	(10)	5	79
Weakening of Euro in US Dollar terms by 10c	(325)	11	(7)	(85)

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.

	2017	2016
	Increase/(Decrease) in Profit After Tax	
	$'000	$'000
Strengthening of Sterling in US Dollar terms by 10c	29	(172)
Weakening of Sterling in US Dollar terms by 10c	(29)	172
Strengthening of Euro in US Dollar terms by 10c	71	53
Weakening of Euro in US Dollar terms by 10c	(71)	(53)

f) Capital

The group considers its capital to comprise its share capital, its capital reserves (as set out in Note 24) and its retained earnings. 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	*2017 Number*	*2017 $'000*	*2016 Number*	*2016 $'000*
Ordinary shares of 20 pence each	9,999,378	3,079	7,361,365	2,375

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. During the year, 2,601,306 ordinary shares were issued in connection with the conversion of loan stock at 76.5p per share, (details of which are set out in Note 20) and 36,707 in connection with the exercise of options at exercise prices ranging from 47.5p to 150p.

At 1 January 2017, 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, which had a ten-year life, expired unexercised in June 2017.

24. CAPITAL RESERVES

Group

	Share Premium $'000	*Equity Reserve $'000*	*Special Reserve $'000*	*Total $'000*
At 1 January 2016	-	678	5,073	5,751
Issues of shares	98	-	-	98
Recognition of share-based payments	-	62	-	62
Lapsing or expiry of share options	-	(68)	-	(68)
At 1 January 2017	98	672	5,073	5,843
Issues of shares	1,986	-	-	1,986
Recognition of share-based payments	-	173	-	173
Acquisition of shares by Esot	-	(29)	-	(29)
Lapsing or expiry of share options	-	(20)	-	(20)
Expiry of warrants to subscribe for shares	-	(70)	-	(70)
Transfer of embedded derivative on full conversion of unsecured loan stock	-	(163)	-	(163)
At 31 December 2017	2,084	563	5,073	7,720

Company

	Share Premium $'000	*Equity Reserve $'000*	*Special Reserve $'000*	*Total $'000*
At 1 January 2016	-	678	5,073	5,751
Issues of shares	98	-	-	98
Recognition of share-based payments	-	62	-	62
Lapsing or expiry of share options	-	(68)	-	(68)
At 1 January 2017	98	672	5,073	5,843
Issues of shares	1,986	-	-	1,986
Recognition of share-based payments	-	173	-	173
Acquisition of shares by Esot	-	(29)	-	(29)
Lapsing or expiry of share options	-	(20)	-	(20)
Expiry of warrants to subscribe for shares	-	(70)	-	(70)
Transfer of embedded derivative on full conversion of unsecured loan stock	-	(163)	-	(163)
At 31 December 2017	2,084	563	5,073	7,720

The equity reserve comprises the fair value of share-based payments to employees pursuant to the group's share option schemes.

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 2017, the Esot held 36,472ordinary shares of 20p each in the company (2016: 14,250) which represents 0.3 per cent (2016: 0.2 per cent) of the company's ordinary share capital. The equity reserve includes a deduction of $46,000 (2016: $17,000) which represents the cost of the shares held by the Esot at 31 December 2017.

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 2017 and at 31 December 2016, 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.

The special reserve is a non-distributable reserve arising from a capital reorganization in 2013, 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. DIVIDENDS

No dividends were paid during the year. The directors are proposing a final dividend of 2.5 pence per share in respect of the year ended 31 December 2017 amounting to £250,000. This dividend has not been accrued in the consolidated balance sheet as dividends are accounted for on a cash basis.

26. RETIREMENT BENEFIT PLANS

The group operates defined contribution retirement benefit plans which employees are entitled to join. The total expense recognized in the income statement of $369,000 (2016: $269,000) represents contributions paid to such plans at rates specified in the rules of the plans.

27. RELATED PARTY TRANSACTIONS

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

Compensation of Key Management Personnel

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

	2017	*2016*
	$'000	*$'000*
Emoluments and benefits	2,523	2,561
Pension contributions	58	51
Share-based payments	98	47
	2,679	2,659

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:

	2017	*2016*
	$'000	*$'000*
Net amounts repaid by subsidiaries in respect of interest-free loans	(1,330)	(36)
Net management charges to subsidiaries	674	556

The amounts owed by subsidiary companies to the parent company at 31 December 2017 totaled $52,345,000 (2016: $48,386,000). An amount of, $4,664,000, due from the group's US subsidiary companies, has been recognized in the parent company balance sheet, the balance of amounts due from subsidiaries remaining subject to full provision. In 2016 full provision was made against the whole of such amounts due. Amounts owed by subsidiary companies to the parent company are unsecured and are subordinated to the claims of all other creditors.

During 2017 and 2016, the company granted share options to employees of subsidiary companies. Details of grants of share options are disclosed in Note 28.

Other Related Party Transactions

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

28. SHARE-BASED PAYMENTS

Equity-settled Share Option Schemes

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

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

Details of the share options outstanding during 2016 and 2017 are as follows:

	Number of Share Options	*Weighted Average Exercise Price £*
Outstanding at 1 January 2016	622,170	0.99
Options granted in 2016	91,189	0.88
Options exercised in 2016	(69,294)	1.19
Options lapsed in 2016	(19,919)	0.97
Outstanding at 31 December 2016	624,146	0.95
Options granted in 2017	163,900	4.68
Options exercised in 2017	(36,707)	0.73
Options lapsed in 2017	(5,750)	4.14
Outstanding at 31 December 2017	745,589	1.76
Exercisable at 31 December 2017	544,000	0.94
Exercisable at 31 December 2016	520,114	0.99

During 2017, options were exercised over 36,707 ordinary shares at exercise prices ranging from 47.5p to 150p. During 2016, share options were exercised over 69,294 ordinary shares at exercise prices ranging from 55p to 175p. The options outstanding at the end of the year have a weighted average contractual life of 6.4 years (2016: 6.2 years).

During the year share options were granted on 15 February 2017, when the exercise price of options granted was 467.5p and the estimated fair value was 276.8p. During the preceding year share options were granted on 8 April 2016, when the exercise price of options granted was 87.5p and the estimated fair value was 51.8p.

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

Date of Grant	*February 2017*	*April 2016*
Share price at time of grant	467.5p	87.5p
Exercise price	467.5p	87.5p
Expected volatility	40%	40%
Risk-free rate	5%	5%
Expected dividend yield	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.

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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