Sopheon

2018 Annual Report


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

TABLE OF CONTENTS

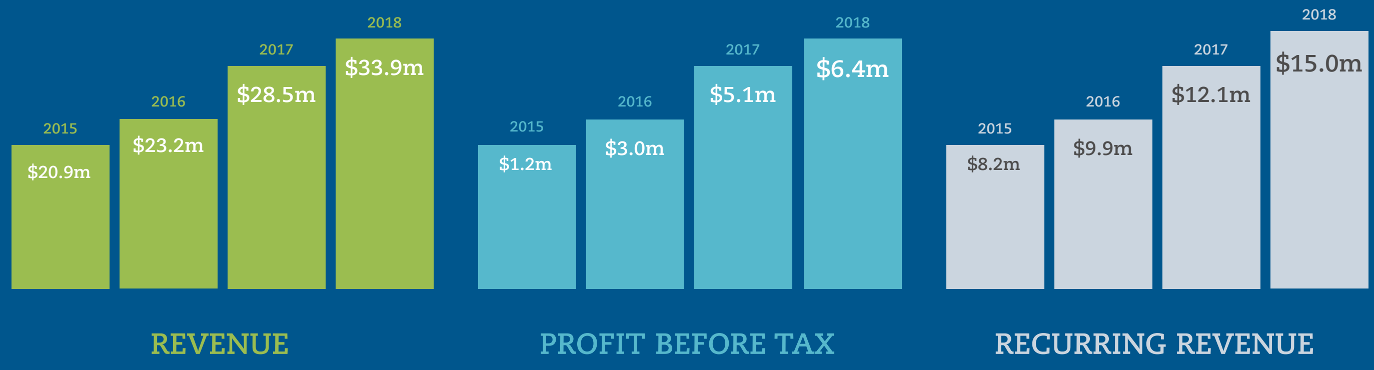
Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation.

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 transformational change, enterprise innovation, product development, 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.

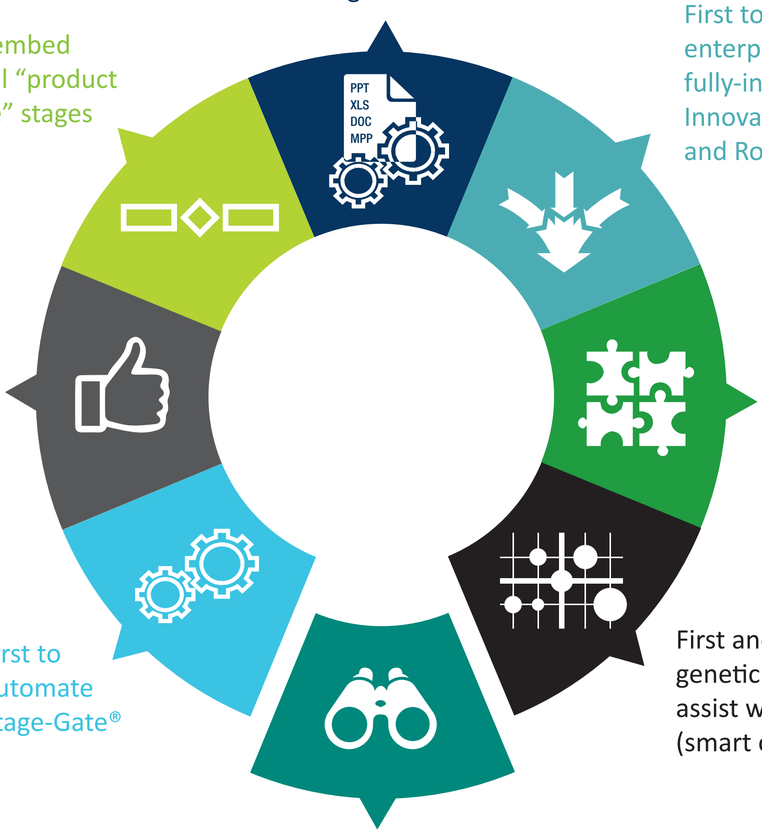
Strategic Innovation Planning & Roadmapping	Strategy Execution	Idea/ Concept Development	Innovation Process & Program Management	Portfolio Optimization & Resource Management



First to introduce smart technologies and PPT on a single click

First to implement enterprise-wide, fully-integrated Innovation Planning and Roadmapping

First to embed graphical “product life cycle” stages



First to embed 30 years of best-practice know-how

First to introduce integrated roadmapping, planning, execution, ideation and portfolio in one solution

First to automate Stage-Gate®

First and only to provide a genetic (learning) algorithm to assist with portfolio alignment (smart optimization)

First to embed proactive knowledge discovery

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

CHAIRMAN'S STATEMENT

I am pleased to report another year of solid strategic and financial progress for Sopheon. In recent years I have described how we have broadened our mission from one that helps R&D organizations to improve innovation, to one that helps major enterprises achieve their strategic goals. This extension of our vision into what some are beginning to call a third major pillar of the enterprise stack – alongside ERP and CRM – has dramatically expanded our horizons and potential. In an increasingly digital world, organizations are challenged to operate with more agility and velocity to survive and thrive; this is where Sopheon can help and add significant value to our customers. The potential addressable market for this opportunity is very substantial. Sopheon continues to benefit from increased market recognition through industry business analyst leaders Gartner and Forrester Research, having been named in 22 research reports in 2018.

While executing on our growth strategy we continued to strengthen our financial performance. Once again, revenues, EBITDA[1] and other profit measures in 2018 all exceeded market expectations, and resulted in two upward revisions. Revenues rose to $33.9m from $28.5m in 2017. EBITDA reached $8.9m, up from $8m. Substantial realignment of our debt position in 2017 has fed through into an even larger increase in profit before tax, to $6.4m compared to $5.1m the year before. Our balance sheet is now very strong indeed, with net assets rising to $25.6m from $18.6m the year before, and net cash rising to $16.7m from $9.5m; 100% of this growth has been generated organically.

Our balance sheet is now very strong indeed, with net assets rising to $25.6m from $18.6m the year before, and net cash rising to $16.7m from $9.5m; 100% of this growth has been generated organically.

New customer acquisition increased by 39 percent, rising from 13 to 18 new license wins. At the same time, we are proud of our very strong and increasingly enterprise-focused customer relationships – over two-thirds of our annual revenues come from existing customers. Five of our new license deals were for software as a service (SaaS) transactions. When combined with further increases in maintenance and hosting, this has led to Sopheon closing the year with a total recurring revenue run rate of $15m, compared to $12m the year before. Together with a solid backlog of services business coming out of 2018, coupled with a few early-reported sales in 2019, current year revenue visibility[2] now stands at $20.6m as compared to $19.3m at this time last year.

We continue to focus on and refine our three core growth strategies – to extend our footprint in existing customers with an enterprise platform approach, to target new business with an unambiguously vertical focus, and to develop a partnership ecosystem. These are described in more detail later in this statement. These core strategies, along with our tremendous staff and unique culture, have been at the root of our consistent and solid financial performance. In the context of financial performance, I want to come back to the theme of recurring revenue. We are very proud of our strong customer relationships, repeat business and growing $15m recurring revenue base. Approximately $3m of this is SaaS and hosting. Looking forward, our strong sales pipeline includes a number of larger opportunities validating the strategic evolution I described earlier. As always with a mostly perpetual, on-premise model, such deals can have a big revenue effect on the period in which they close.

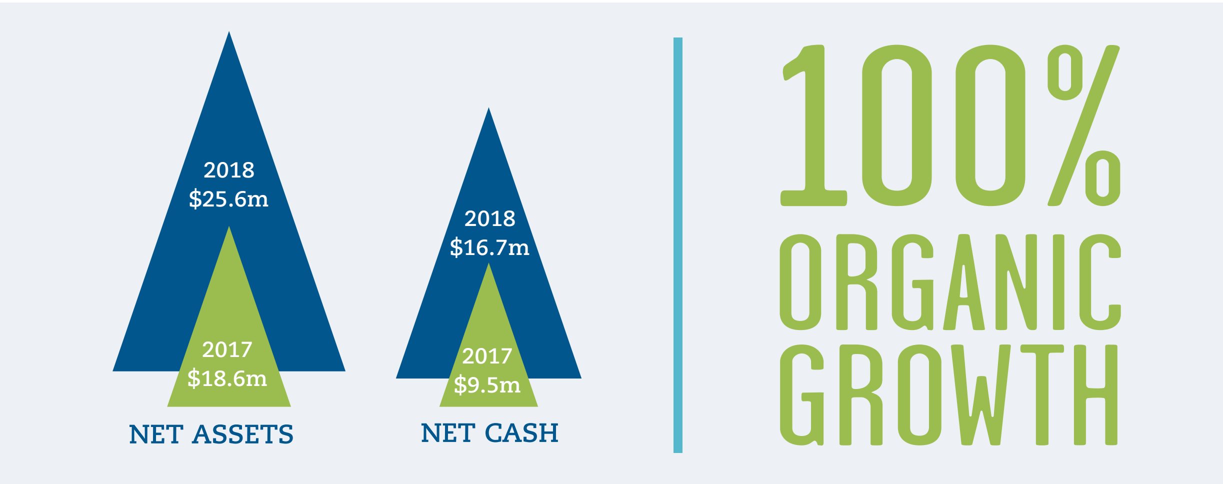
However, as noted above, customer preference for perpetual rather than SaaS licensing in our market is beginning to shift. With our balance sheet strong, we are assessing how to accelerate this migration to an even higher recurring revenue model.

With a large diversified blue-chip client base, a comprehensive software platform and deep sector expertise, we have a unique opportunity to advance our category leader status. Strategically, now is the time to accelerate investment and solidify our leadership position. Once again, we have ambitious plans, many of which depend on bringing in the right people in the coming year. Recent improvements to our hiring practices are leading to rising traction with recruitment. Visibility already stands at $20.6m and our sales pipeline includes a number of large opportunities; furthermore, in parallel with organic investments, we will continue to assess corporate paths to accelerate our progress. In this respect, as well as driving partnerships and reassessing our SaaS strategy, we remain open to M&A opportunities, provided they align with our strategic priorities.

I would like to close this statement by announcing a proposal to increase our dividend from 2.5p to 3.25p per share, which we will put to shareholders at the next annual general meeting. I am delighted to be following through on the commitment made last year to maintain a progressive dividend policy, which the board believes underlines our maturity as a business.

Barry Mence
Executive Chairman

20 March 2019



[1] *EBITDA is defined and reconciled in Note 5 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.

LEARNINGS FROM 2018

1 OUR VISION IS SOLID

Sopheon's historical mission continues to be very relevant to senior leadership and board level executives in our target markets.

2 ACCOLADE IS AN ADAPTABLE PLATFORM

In 2018 we experienced market validation of Accolade's role as an enterprise platform. During the course of the year we learned that our Accolade platform is used as a solution for 14 different business applications, each offering a distinct value proposition. Most are tangential to our foundational solution – automation of the product development process.

3 A NEW & UNIQUE DIFFERENTIATOR EMERGED

There is an emerging expectation from the market that enterprise-class software, historically viewed as complex and hard to use, should appear simple to users of the software while still delivering robust scalability and granular security models. As we continued to deepen partnerships with our enterprise-scale customers, we learned repeatedly that we are meeting this expectation – Accolade, while a very advanced offering satisfying the IT architecture, governance and complex access control needs of global companies, is at the same time providing a consumer-grade user experience for the users of the software. We believe we are unique in this in our space, and are committed to continuing our journey to lead in the evolution of the modern, easy-to-use enterprise software.

4 BEYOND PRODUCT TO MISSION CRITICAL

Last year we took a big step towards one of our strategic goals, namely extending our value proposition from a "product-centric" solution to digitalizing the corporate strategies that are responsible for driving our clients' future success. We learned that a number of clients have begun to use Accolade to improve alignment, visibility and transparency between corporate strategic initiatives and the operational execution activities that are responsible for initiative success. This extension of our software has been the result of a natural pull by our clients to turn Accolade into a more strategic enterprise platform; we will embrace this movement and invest to make Accolade a mission-critical enterprise pillar.

5 NEW CLIENT ACQUISITION IS SCALABLE

We also proved we can increase new client acquisition through more targeted marketing and additional investment into sales efforts. The 39 percent rise in new client acquisition is also a sign of business momentum, market reputation and growing market need.

6 INNOVATION ECOSYSTEMS ARE MATURING

Lastly, we witnessed a shift in the desire by our clients to use Accolade as a shared innovation platform across an ecosystem of innovators working together towards a common business goal. We are very much on the front end of understanding how Accolade can operate as a common governance system for business partner ecosystems. Last year we had a number of our clients who are part of one another's ecosystem ask us to facilitate workshop activities to collaborate around this topic. While too early to determine what direction this will take, it is firmly on our roadmap for discovery and we will watch this space closely for opportunities to expand our offering and lead the market further.

"It was critical that the Enterprise Innovation Management software solution we selected be easy to use, have the depth of functionality to fulfil our emerging business requirements, and be accessible in a modular, scalable format. Sopheon's Accolade fulfilled these requirements in full."

Head of Innovations at a large dairy foods company

MARKET OPPORTUNITIES

1 CONTINUED INDUSTRY FOCUS

We continued to concentrate on our core industries with the objective of growing market share where we hold preferred positions due to strong core competency in our product, best-practice content and expertise of our people. I am proud to share that 100% of our 2018 Net New sales came from our target verticals, proof of our team's dedication to executing on our strategy.

In parallel, we are exploring additional industries for expansion. On the back of the success in signing market leader Denso and others in 2018, we will be investing in targeted marketing programs to the Automotive & Transportation sector in the coming years.

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

2 TAPPING INTO DIGITAL TRANSFORMATION

Research[1] shows that over 40% of today's companies on the S&P 500 will no longer exist within 10 years due to their inability to operate with agility and speed in today's hyper paced changing markets. Executing on digital transformation strategies and initiatives is becoming an imperative for these organizations. This new emerging market represents considerable addressable target market size as a subset of the overall digital transformation market, estimated at $445 billion.

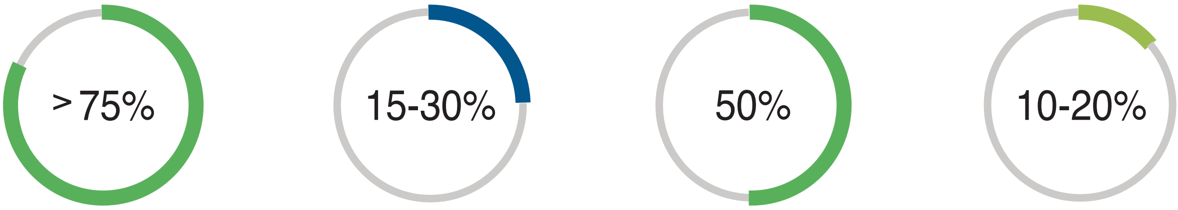
Many companies suffer from operating with outdated and "disconnected" tools in a market that is moving faster than they are, putting them at risk of finding themselves on the wrong side of what research refers to as a growing digital divide separating winners and losers.

Sopheon believes companies cannot implement strategic changes or pivots with speed – an ability required to win in today's fast-paced economy – without "connecting" strategic initiatives with operational work activities. We see this as a unique opportunity for Sopheon to digitalize corporate strategic initiatives, innovation investments and portfolios in a single platform creating a digital operating model designed to navigate the new world order of digital disruption.

Accolade digitalizes this emerging operating model enabling a CEO to achieve his or her strategic direction with a velocity that cannot be accomplished without the support of an enterprise innovation management platform.

[1] *John M. Olin School of Business*

Sopheon customers report the following value from digitalizing their innovation processes with Accolade:



Increase Portfolio Value by 75-100%

Reduce Time to Market by 15-30%

Increase Product/Initiative Success by up to 50%

Reduce Costs by 10-20%

3 CLIENT PARTNERSHIP EXPANSION

For many years Sopheon has aspired to work with the most successful innovators in the world. Today we are extremely proud – and fortunate – to have earned the trust to conduct business with many admired global brand leaders. While our clients have played an instrumental role in shaping our product roadmap in the past, we believe there is mutual benefit to be had from investing in stronger and deeper relationships. For example, we are engaging strategically with clients in the creation of our top two new product innovations currently in concept development. We are excited to explore further opportunities to innovate in partnership with our clients in creating solutions that bring value to both parties.

Companies must create three new operational competencies powered through digitalization to win in the digital age

Global Digitization

Power of the Consumer

01 Annual planning must be **dynamic** and **iterative**

02 Strategic initiatives must be **realized** at a higher rate

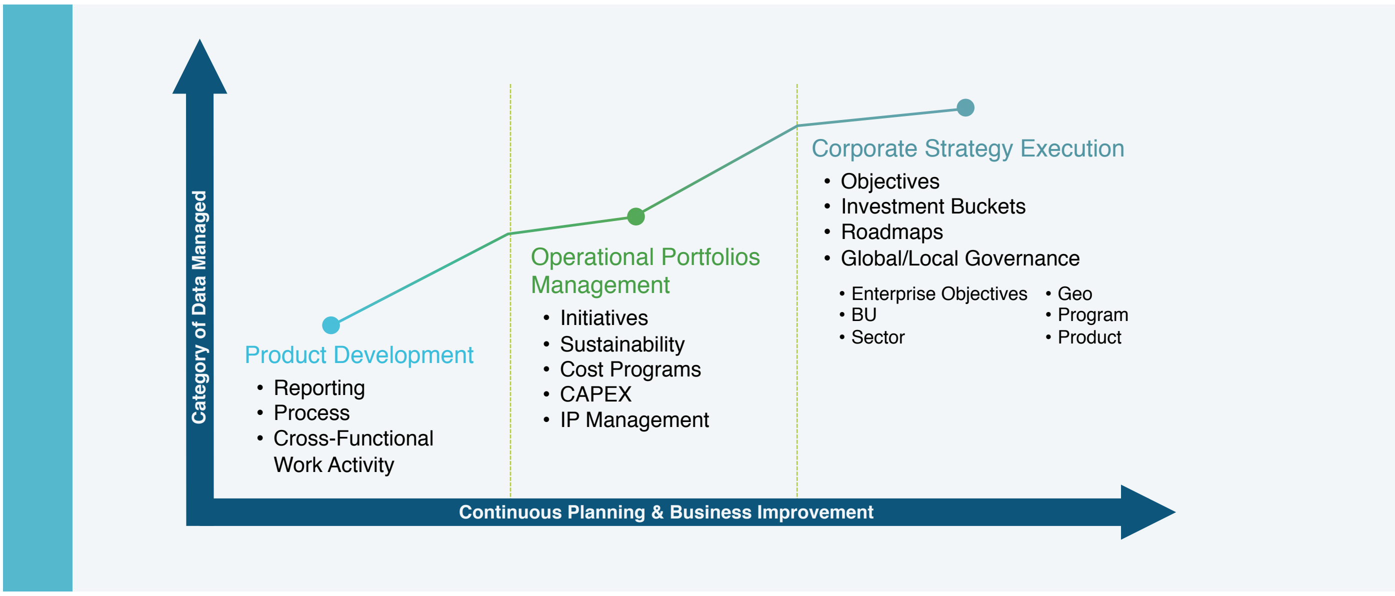
03 Cross-functional teamwork must be **“connected”**

CONTINUED MARKET MOMENTUM AND VALIDATION

Throughout 2018 Sopheon reported continued market momentum in a number of areas; it is precisely this momentum that gives us confidence and optimism for the future.

Product Competency Drives Business Expansion

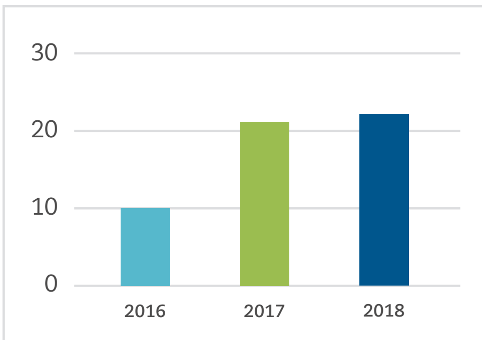
We continue to leverage our strength in product development process automation that underpinned our initial product offering when Sopheon was established. We have since expanded our specialization to the portfolio management market and have more recently stepped into a broader enterprise solution to support the execution of corporate strategy. We are unique in our ability to link corporate strategic initiatives with operational execution activity for transparency and visibility. It is this ability, in combination with Accolade's deepening capabilities with each product release in curating data, managing business processes, and providing insights and reporting, that has our clients increasingly describing Accolade as being a mission critical system for them.



Accolade decision support has expanded from product development to mission-critical strategic planning and execution.

Increased Market Coverage by Business Analysts

Sopheon continued to enjoy increased coverage in industry research by respected business analysts, with mentions in 22 reports in 2018. We were recognized in five of Gartner's Market Guides for strategy and innovation markets, as well as its Magic Quadrant for Project Portfolio Management; on the back of being named a Leader in the Forrester Wave™ for Strategic Portfolio Management in 2017, we continue to be named in research reports by Forrester Research in the strategic portfolio management arena. We are experiencing a clear correlation between this coverage and increased inbound demand for our solutions from prospects via our website and other venues.



Research coverage by Gartner & Forrester continues to grow.

"The enhancements in Accolade … will help us navigate change more effectively as an organization, and streamline our daily work so we can move the business forward more quickly."

Richard Herd
Director of Program Management Tools, Strategy & Deployment
Honeywell

Product Uptake and Satisfaction by Clients

Migration to current releases is strong

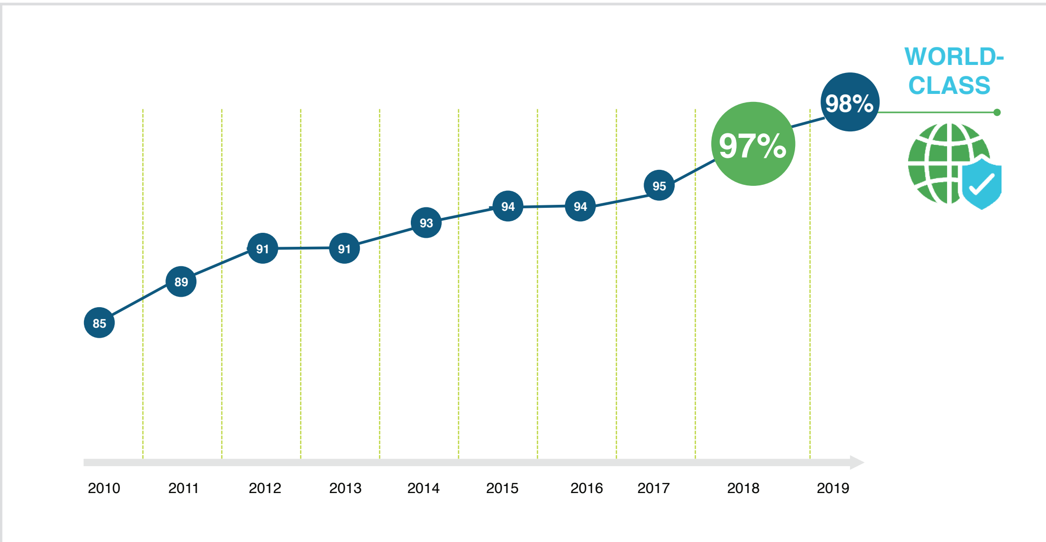
Our clients have become familiar with Sopheon's release cadence and a strong majority – over 85% – have upgraded to a supported release of Sopheon to take advantage of new functionality and capabilities.

Customer support metrics improve

Our Support Services organization continues to improve on customer service delivery as we grow. Performance indicators including response time, time to resolution and number of closed tickets all improved last year in spite of higher volumes of support cases from a growing client base.

Strongest client retention in company history

Our client retention rate continued to display an upward trend, reaching 97 percent (up from 95 percent in 2017). This is an indicator of higher adoption and perceived value by our clients.



World-class retention is in our sights.

RELEASES

87% CUSTOMER BASE ON A SUPPORTED RELEASE

SUPPORT

SUPPORT VOLUME

SUPPORT

TIME TO RESOLVE

WHAT MAKES SOPHEON DIFFERENT

Our Culture

As a company, and as individuals, we value integrity, honesty, openness, personal excellence, continual self-improvement, and mutual respect. These core values contribute to a culture that sets us apart. At a time when technology companies are experiencing unprecedented turnover, instill Sopheon is proud of our employee retention of over 90 percent. The large number of employees whose tenure is 10 years or longer contributes in a unique and critical way to instilling our cultural values into the mentoring of new Sopheonites as they undergo onboarding. In a recent independent consultant study evaluating Sopheon internal processes and culture, employees shared the following:

"It's truly a team, you have a voice and are heard."

"The work is challenging… it doesn't get dull!"

"As long as your work gets done, you have autonomy and flexibility."

"[Sopheon is] the most flexible and open company I've worked for."

"We're always upgrading [technologically] and playing with new tools."

"Good people who are energetic and good to be around."

Our People

Innovation Specialists with Deep Experience Working with World Leaders

We have long-term partnerships with some of the most admired innovators and domain experts in the world. This has provided us the opportunity to learn, invest and continue to serve the needs of such market leaders. It is this foundational expertise that has differentiated Sopheon from others in the market.

Our clients tell us our people are caring, give them high marks for domain knowledge and commitment to their success.

- "Sopheon set itself apart with the promise of best-practice content embedded in its software to guide us in defining our new processes, and its knowledgeable and highly responsive team." (Endress+Hauser)
- "We have found in Sopheon a professional, trustworthy and flexible partner who not only met the regulatory requirements for hosting our sensitive project data, but proved to have a deep understanding of our business needs and processes." (innoEnergy)
- "You both have been extremely engaging and proactive in improving our environment." (Fortune 500 consumer goods firm)

As we continue to grow and expand our teams, we are taking measures to infuse both our culture and our domain experience into how we work. We have kicked off a structured Value Assurance Approach (VAA) program, "packaging" best practices from client engagements into our consulting methodology. The VAA will introduce new efficiencies and time to value for our clients by leveraging accumulated learnings from working with clients. The VAA will enable all new Sopheonites to learn more quickly from our historical experience and impart that knowledge to our growing client base.

Our Product

Sopheon's product team has moved our product forward greatly, updating legacy technology while making strategic advancements that will provide market differentiation well into the future. Our solution is unique in its end-to-end support of the innovation lifecycle, and its configurability that enables support for such a broad range of tangential business processes and use cases. We continue to maintain a regular release cadence, with the following releases in 2018:

1. Accolade 12.0, released in March 2018, provided deeper connection and transparency between decision making and knowledge work, making it easier and quicker to make the best decisions and get work done and helping organization to be more agile and adaptable in a hyper-competitive market.

> *"The new Accolade 12.0 release will give us the ability to quickly reassign resources across multiple projects. This feature falls right in line with Afton's efforts to continuously improve business processes by saving our global business managers valuable time when managing their new product development project portfolios."*
>
> – Randy Franklin,
> Business Systems Specialist at Afton Chemical Corporation

2. Accolade 12.1, released in August 2018, boosted time-to-insights and reporting efficiencies.

> *"Parker has chosen to take advantage of Accolade's great new capabilities in navigating and visualizing key metrics around portfolio management. These drive the best possible clarity for our key business segments across the corporate hierarchy as they make strategic investment decisions. We find the ability to model and evaluate various portfolio scenarios to be particularly compelling, supporting our efforts to implement the optimal mix of investment vs. reward and overall alignment to goals."*
>
> – Bill Beane,
> Senior Director of Corporate Technology Ventures
> & Innovation Systems, Parker Hannifin

Our Clients

Blue-Chip Customer Base

Sopheon is extremely proud of the quality of our blue-chip customer base. Legendary brands to join the Sopheon fold during 2018 include The Nature's Bounty Company, The Hershey Company and Doosan Bobcat. These market leaders provide a strong revenue stream from ongoing maintenance renewals, plus the nature of the relationships offers huge potential for expanding our user base and application of our software into new areas of their business. The power of this customer base is made apparent by the number of new prospects proactively reaching out to Sopheon based on a referral from an existing Accolade user or when Accolade users change roles or change jobs and introduce us into their new company.

Stronger Together

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. This value is shared by longstanding clients and new clients coming into the Sopheon network alike.

GROWTH STRATEGY

We are confident that our fundamental corporate Mission, Vision and Strategy have us on the right path for continued success. Our growth strategy has not wavered, and we continue to be focused on the same four cornerstones that have delivered our recent growth:

1. **Leverage blue chip references to extend Accolade as the digital platform of choice to digitalize corporate strategy and operational execution.** 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. 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 the future.

2. **Generate faster Net New logo 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. We will continue to focus our efforts on dominating our chosen core vertical markets 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 our exploration in the automotive and transportation industry provided favorable results leading to the addition of this vertical as a core industry in which we will invest to gain market share. We will continue to explore additional verticals in 2019.

3. **Multiply our growth through developing and monetizing an Accolade ecosystem of distribution partnerships – channel, strategic and geographical.** Our ecosystem has 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. Last year we produced new sales through partnership with both management consulting companies as well as further development of our emerging reseller network. Our partner development strategy calls for several varieties of partners, 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.

4. **Engage in M&A** only if it propels the speed and competency for Sopheon to achieve 1, 2 or 3 above.

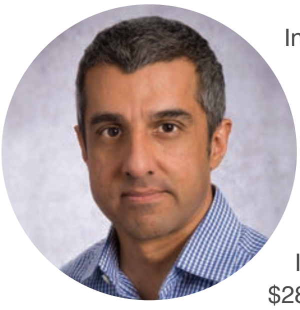
Performance and momentum suggest we are on the correct path, giving us confidence in our growth strategy as we go forward.

A summary of the principal risks areas facing the business is set out in the Directors' Report. Approved by the board and signed on its behalf by:

Andy Michuda
CEO

20 March 2019

FINANCIAL REVIEW



In this report, our CFO Arif Karimjee provides further analysis of Sopheon's financial results during 2018, our financial position at the end of the year, and an overview of key corporate developments.

Trading Performance

In 2018 we reported a 19 percent increase in consolidated turnover to $33.9m, up from $28.5m in 2017. Around half of the rise can be attributed to software related revenues – licenses and maintenance – with the other half being service related, being implementations and hosting. With respect to the license activity, larger deal size was the key driver of the increase, with a total license transaction count including extension orders of 57 compared to 59 in 2017. This is good evidence of our migration towards more enterprise deals, given that 2017 had already benefited from two very substantial sales. Underlining the increasingly enterprise-oriented nature of our business, it is striking that over the past five years 31 customers have each delivered over $1m in revenue to Sopheon.

Of the 57 transactions last year 18 were new customers, a 39% increase over the 13 booked in 2017. Both maintenance and services rose well, driven by delivery both of the business sold in the preceding year and new deals signed in 2018. Our services revenues now exceed $10m revenue, a milestone for any consultancy business. Our hosting revenues showed particular strength as further detailed below. A breakdown of revenue in each year is given in Note 4 of the financial statements.

It has become typical in our business to have a very strong fourth quarter, which can lead to a lot of activity at the end of the year. However, in 2018 we were fortunate in having a number of substantial transactions complete at the end of the third quarter and accordingly this proved to be our strongest quarter last year. The overall calendarization pattern broadly held in 2018, with the second half of the year accounting for 53 percent of revenues (2017: 55 percent and 2016: 51 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 factor to bear in mind while we continue to operate with a largely perpetual license model – something we are looking at strategically as noted in the Chairman's Statement. The seasonal profile of our services business is less predictable as it is linked to timing of preceding license sales and the individual scale of implementation projects, which can vary tremendously depending on the maturity of each customer. Maintenance and hosting revenue elements are more evenly spread as would be expected from their accounting treatment.

> Of the 57 transactions last year 18 were new customers, a 39% increase over the 13 booked in 2017. Both maintenance and services rose well, driven by delivery both of the business sold in the preceding year and new deals signed in 2018. Our services revenues now exceed $10m revenue, a milestone for any consultancy business.

2017 featured a particularly strong year for our European business, with almost 39 percent of total revenues. As detailed in Note 3, both the Americas and Europe grew revenues further in 2018 – indicative of the rising momentum across our developed markets – but the emphasis shifted back to North America somewhat at 64 percent (2017: 61 percent).

Coming into 2019 and following some early sales bookings at the start of the year, revenue visibility for the year already stands at $20.6m compared to $19.3m at this time a year ago.

Gross margin was 71 percent, compared to 73 percent in 2017 but ahead of the 70 percent achieved in 2016. Both 2018 and 2016 had greater services intensity, which can have a small impact on margins; costs of the professional services organization are included in costs of sales, alongside the costs of our hosting activities, license royalties for OEM partners and certain indirect taxes. We expanded services resources again last year, as well as adding new leadership, resulting in higher payroll and subcontracting costs in this area. We believe that a strong services capability is also key to long-term success and win rate, and we will continue to recruit in this area as the business expands while also ensuring that we make limited use of flexible subcontracted resources as appropriate.

Recurring Revenue

As noted in the Chairman's Statement we recognize that recurring revenue is both fundamental to our long-term growth and important to the investor community, and we are actively considering ways to further enhance the recurring profile of the business. The group's base of recurring business rose to $15m at the end of 2018, compared to $12m the year before. Maintenance alone has a run rate of $12m, with an additional $1.5m each in hosting services and Software as a Service (SaaS) subscriptions. The majority of our license revenue continues to remain perpetual in nature, but we continue to see growing interest in SaaS options. During 2018 we signed five new SaaS deals compared to three the year before, demonstrating growing traction in this important area of corporate development. 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 infrastructure to ensure this service remains an attractive proposition. Over a quarter of our active perpetual customers are hosted by Sopheon. Overall retention of recurring revenue increased to 97 percent by value (2017: 95 percent). In this regard we continue to invest in customer satisfaction programs alongside regular service and account management processes to maximize value for our customers.

> We recognize that recurring revenue is both fundamental to our long-term growth and important to the investor community, and we are actively considering ways to further enhance the recurring profile of the business. The group's base of recurring business rose to $15m at the end of 2018, compared to $12m the year before.

Complementing our focus on recurring revenue, our strong customer relationships are key to the stability and potential of our business as we extend our footprint in each customer in line with our strategic goals described in the Strategy and Market Review above. In this respect I have already commented on the increasingly enterprise-oriented nature of our business leading to serious revenue generation from a wide range of customers; also of note is the fact that 73 percent of our revenues were from existing customers last year (2017: 69 percent).

Research and Development Expenditure

Overall expenditure in product development increased by approximately $0.9m to $5.5m in 2018. These amounts can be compared to the headline research and development reported in the income statement showing an increase from $4.3m to $5.1m; 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 – an expansion we first started in 2017. We had in fact decided to accelerate hiring in this area in 2018; as noted elsewhere there is a tight market in particular for US software engineers. Accordingly our costs in this area were somewhat lower than expected, contributing to the strong profit performance in the year. We have modified our recruitment practices in this area and are now seeing rising traction with bringing on new skilled people. Overall, the amount of 2018 research and development expenditure that met the criteria of IAS38 for capitalization was $2.6m (2017: $2.5m) offset by amortization charges of $2.2m (2016: $2.2m). These capitalized costs are largely attributable to the group's investment in the Accolade 12.0, 12.1, and 12.2 releases.

Other Operating Costs

Like any other software and services business, over three quarters of Sopheon's costs are payroll and related costs. Sopheon has a relatively mature and highly qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. Furthermore, we have made a strategic decision to onshore our development team, as we believe that until a certain scale is reached, the cost benefits of offshoring are outweighed by management and productivity concerns. Our focus remains on securing the right mix of people rather than targeting a headcount number; however, as revenue growth has progressed, since 2016 we have steadily expanded staffing, ending 2018 with 147 staff. As indicated above, we had intended to accelerate recruitment last year, and we continue to target a large number of hires into 2019 to support the growth and strategic trajectory of the business.

The average headcount during 2018 was 142, compared to 125 the year before, leading to higher overall wage costs as reported in Note 7 of the financial statements. Payroll costs also include 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 and is paid in 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 $0.8m. Most of this increase was attributable to additional staff, with a third linked to higher commission and incentive payments linked to higher revenue. As with other areas, we are looking to expand these teams further during 2019.

Headline administration costs have risen by approximately $0.6m. This area includes all other overheads, office costs, regulatory and compliance costs, and depreciation – several of which expanded to keep pace with our growth. It also includes 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 in 2016, 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

EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) is a key indicator of the underlying performance of our business, commonly used in the technology sector. EBITDA is further defined and reconciled to profit before tax in Note 5. The combined effect of the revenue and cost performance discussed above has resulted in Sopheon's EBITDA performance for 2018 rising strongly again, to $8.9m, from $8.0m in 2017 and $5.6m in 2016.

As further described below, during the year the group had facilities with Silicon Valley Bank but these were largely undrawn, resulting in a low finance expense compared to previous years. In previous years the group had convertible unsecured loan stock, which was converted into equity in December 2017, a transaction that included a compensatory payment of interest resulting in a total interest charge in 2017 of $0.5m compared to $0.1m in 2018. Furthermore, as dollar interest rates started to rise we were able to capture around $0.1m of interest income in 2018 compared to a negligible amount the year before. These positive changes in the funding structure of the business means that profit before tax has shown an even stronger improvement year on year, coming in at $6.4m (2017: $5.1m).

> Positive changes in the funding structure of the business means that profit before tax has shown an even stronger improvement year on year, coming in at $6.4m (2017: $5.1m).

The net tax credit of $0.5m (2017: $0.2m) reported in the income statement is made up of three elements. First, although Sopheon benefits from accumulated tax losses in a number of jurisdictions this is not universal and accordingly a current tax charge of approximately $0.2m was incurred in 2018 (2017: $0.4m) of which a third arose in Germany and the balance were state taxes in the United States. Second, due to the rising profit trend of the group, in 2016 we started recognition of the substantial deferred tax asset owned by the business and, as further detailed in Note 10, we have extended the scope of that recognition in subsequent years. This resulted in added recognition of a further $0.5m (2017: $0.7m) in 2018, of a total potential asset of approximately $13m. Finally, following reforms of the corporate alternative minimum tax (AMT) regime in the USA, the group is entitled to a refund of AMT paid in previous years leading to recognition of a $0.2m credit.

Altogether, this leads to a profit after tax rising to $6.9m (2017: $5.4m). Profit per ordinary share on a fully diluted basis has also risen to 65 cents (2017: 56 cents).

Dividend

Following another successful year, the board is pleased to continue Sopheon's progressive dividend policy and proposes a dividend of 3.25p pence per share for the year ended 31 December 2018 (2017: 2.5p). Subject to approval by the company's shareholders at the annual general meeting scheduled for 13 June 2019, the dividend will be paid on 12 July 2019 with an ex-dividend date of 13 June 2019.

> Following another successful year, the board is pleased to continue Sopheon's progressive dividend policy and proposes a dividend of 3.25 pence per share for the year ended 31 December 2018 (2017: 2.5p).

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 April this year, with renewal being negotiated as we go to press. Both facilities bear interest at rates of 2.75 percent over the Wall Street Prime rate, resulting in a current effective rate of 8.25 percent, rates that are expected to improve substantially upon renewal. The facilities, drawdown mechanics and interest rates are subject to covenants based on 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, which had been due to mature on 31 January 2019, was in fact fully converted the end of 2017, resulting in the issue of approximately 2.5m new Ordinary Shares. This change improved the profile of the group’s balance sheet and simplified the capital structure, as well as eliminating a major element of our interest charges.

> Consolidated net assets at the end of the year stood at $25.6m (2017: $18.6m), an increase of $7m. Around $5.5m of this increase is attributable to an improvement in the net current asset position, on the back of another year of strong operational performance.

Intangible assets stood at $6.2m (2017: $5.8m) at the end of the year. This includes (i) $5.2m being the net book value of capitalized research and development (2017: $4.8m) and (ii) an additional $1.0m (2017: $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 $0.5m at the end of the year (2017: $0.4m).

Consolidated net assets at the end of the year stood at $25.6m (2017: $18.6m), an increase of $7m. Around $5.5m 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 $0.2m relates to the elimination of long-term debt, $0.7m to the increased recognition of the deferred tax asset and AMT credit, 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 2018 amounted to $17.1m (2017: $12.7m). Approximately $7.4m was held in US Dollars, $8.0m in Euros and $1.7m in Sterling. Net cash, stated after subtracting debt, rose from $9.5m the previous year to $16.7m at the end of 2018.

Approved by the board and signed on its behalf by:

Arif Karimjee
CFO

20 March 2019

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	
Registered Office	Dorna House One 50 Guildford Road West End, Surrey GU24 9PW	
Registered Name and Number	Sopheon plc Registered in England and Wales No. 3217859	
Auditors	BDO LLP 55 Baker Street London W1U 7EU	
Principal Bankers and Financiers	Silicon Valley Bank 3003 Tasman Drive Santa Clara, CA 95054 United States	Silicon Valley Bank Alphabeta 14-18 Finsbury Square London EC2A 1BR
	Rabobank Amsterdam Van Baerlestraat 102-106 1071 BC Amsterdam The Netherlands	Commerzbank Rheinstrasse 14 64283 Darmstadt Germany
Solicitors and Attorneys	Squire Patton Boggs 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2200 IDS Center, 80 South 8th Street Minneapolis, MN 55402 United States
	Loyens & Loeff Fred Roeskestraat 100 1076 ED Amsterdam The Netherlands	
AIM Nominated Adviser and Broker	finnCap Limited 60 New Broad Street London EC2M 1JJ	
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 2018 $	*Bonus 2018* $	*Benefits 2018* $	*Total 2018* $	*Total 2017* $
Executive Directors					
B.K. Mence	205,599	96,871	7,118	309,588	296,592
A.L. Michuda	320,525	155,015	11,916	487,456	471,703
A. Karimjee	196,306	74,648	4,967	275,921	243,302
Non-executive Directors					
S.A. Silcock	33,992	-	-	33,992	30,458
D. Metzger	33,992	-	-	33,992	30,458
	790,414	326,534	24,001	1,140,949	1,072,513

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 2017 and 2018 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 2018 contributions of $9,331, $4,527 and $9,175 (2017: $9,073, $7,956 and $8,058) 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 2014, 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*	
At 31 December	*2018*	*2017*	*2018*	*2017*
B.K. Mence	24,250	24,250	2,228,537	2,294,927
A.L. Michuda	290,000	240,000	84,155	88,823
A. Karimjee	85,000	75,000	82,493	85,294
S.A. Silcock	-	-	520,318	541,064
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 15,575, 8,875 and 32,493 ordinary shares each. An additional 11,250 of the ordinary shares disclosed for S.A. Silcock are held as trustee or executor for family members. Accordingly, the personal interest of B.K. Mence is in 2,212,962, S.A. Silcock in 500,193 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 2017*	*Granted During Year*	*Expired During Year*	*At 31 December 2018*
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	-	(37,500)	100,880
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.L. Michuda	11 February 2018	565p	-	50,000	-	50,000
A.L. Michuda	4 July 2018	900p	-	50,000	-	50,000
A. Karimjee	27 August 2010	150p	7,500	-	-	7,500
A. Karimjee	29 September 2012	105p	23,125	-	(20,000)	3,125
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
A. Karimjee	11 February 2018	565p	-	15,000	-	15,000
A. Karimjee	4 July 2018	900p	-	15,000	-	15,000

Vesting of all of the above share options which were outstanding at 31 December 2018 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 2018 was 1190p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 362p to 1370p. 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 and signed on its behalf by:

Arif Karimjee
Director

20 March 2019

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 approximately two-thirds of the group's revenues and staff are based in the United States, 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 2018 of 3.25 pence per share (2017: 2.5 pence per share), amounting to £330,000 (2017: £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 maintaining high standards of corporate governance. Following recent changes to AIM Rule 26, AIM quoted companies are required to adopt and give details of the corporate governance code which they have adopted and to show how they are following it. With effect from 28 September 2018, the board has adopted the Quoted Companies Alliance's (QCA) Corporate Governance Code for small and mid-size quoted companies (the "QCA Code").

Of the recognized codes generally adhered to by AIM companies, the QCA Code has been drafted with smaller businesses in mind, with a pragmatic and principles-based approach. It was therefore deemed by the board to be the most suitable.

The board had already in 2017 established an internal project to update its internal risk management procedures with a new enterprise risk framework based on the provisions proposed by COSO (Committee of Sponsoring Organizations of the Treadway Commission) with a view to incorporating a formal risk review agenda point in each board meeting. The adoption of the QCA Code has reinforced the underpinnings for this project and key principles of the Code have been incorporated into the risk management process. In addition, the adoption of the QCA Code has resulted in the board preparing new terms of reference for its two key board committees (the Audit Committee and the Remuneration and Appointments Committees) as well as a new schedule of matters reserved for the board of directors.

Solid corporate governance is the foundation on which the business is managed and this is supported by the range of talents of the directors. Biographies of the directors appear inside the back cover, and demonstrate a range of experience and caliber to bring the right level of independent judgment to Sopheon's business. Ensuring financial strength alongside growth objectives is a key guiding principle, supported by an effort to ensure solid communication with shareholders.

The chairman is responsible for leading the board and for its overall effectiveness in directing the group, and for ensuring that the board implements, maintains and communicates effective corporate governance processes and for promoting a culture of openness and debate designed to foster a positive governance culture throughout the group.

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 2018, all directors attended all quarterly meetings either in person or by conference call.

The QCA Code, which was revised in April 2018 to meet the new AIM requirements, identifies ten principles that focus on the pursuit of medium- to long-term value for shareholders without stifling entrepreneurial spirit. Sopheon's adoption of the QCA principles is summarized in the table below. Further details are made available on our website.

QCA Principle	Sopheon Adoption
1. Establish a strategy and business model which promote long-term value for shareholders	Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation. Our guiding philosophy is to balance aggressive growth strategies with a focus on profitability, while also ensuring long-term financial stability. We believe the combination of these three factors will maximize long-term value for shareholders. Full information on the group's strategy and business model can be found in the Strategic Report on pages 6 to 21.
2. Seek to understand and meet shareholder needs and expectations	The board engages with shareholders and the broader investment community via a variety of channels and activities including the annual general meeting, updates to shareholders via reporting and the regulatory news service, and institutional presentations. The Chairman and CFO are the primary contacts for investor interaction alongside finnCap, with the CEO ensuring availability to meet investors when visiting Europe from his US base.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	Sopheon's culture is very open and this includes reaching out and seeking feedback and insights from our various stakeholders. In addition to the investor outreach described above, key practical elements of this philosophy for other stakeholders include having a flat organization with few tiers of management; meeting regularly; all-hands communications via web-meetings; customer engagement through account management, satisfaction surveys and user forum events; and broader market engagement through close relationships with sector analysts such as Gartner and Forrester Research.
4. Embed effective risk management, considering both opportunities and threats, throughout the organization	The board is responsible for identifying the major business risks faced by the group and for determining the appropriate course of action to manage those risks. In 2018 the board adopted a framework for the effective identification, assessment and management of risks to the achievement of corporate objectives. The risk management process is managed in Accolade and is embedded in our quarterly meeting cycle. The risks that the board considers to be principal risks to the group's business are set out on page 28.
5. Maintain the board as a well-functioning, balanced team led by the chair	The QCA Code requires that boards have an appropriate balance between executive and non-executive directors and that each board should have at least two independent directors. The board is made up of three executive directors and two non-executive directors. The two non-executive directors are mature, experienced and independent persons who have each succeeded in their own businesses and are not dependent upon income from the group. They have developed a strong and detailed understanding of the business, and are prepared and able to intervene and challenge the executive directors.
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Details of the background and experience of the directors of the company are set out inside the back cover of this report. These demonstrate that our team collectively has the necessary skills and experiences, as well as the required caliber, to carry out the group's strategy and business model effectively. With regard to the non-executive directors, one is a financial specialist and the other is an industry specialist, and both have prior experience of working in a public company environment. Furthermore, one is America based and the other Europe based, reflecting the geographical footprint of the group.
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	A board self-evaluation process led by the chairman took place in July 2018, using a QCA-sponsored questionnaire and process. Low scoring or divergent scoring responses were then discussed, with gaps and actions for improvement identified. This was the first such formal process and the board has agreed that this should be an annual event.
8. Promote a corporate culture that is based on ethical values and behaviors	Sopheon's core values statement and guiding principles, developed by the extended management team, support the group's culture with a strong footing in ethical values. These are reinforced in the staff handbook and the staff appraisal and development process, which formally embeds cultural and ethical considerations as part of each employee's self-evaluation.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	Formal board meetings are held quarterly to review strategy, management, and performance of the group, with additional meetings between those dates convened as necessary. We have two board committees, the Audit Committee and the Remuneration and Appointments Committee. The terms of reference of both these committees of the board have been revised to reflect the principles of the QCA Code and are available online.
10. Communicate how the company is governed and is performing by maintaining a dialog with shareholders and other relevant stakeholders	The group's approach to investor and shareholder engagement is described under Principle 2 above. Annual reports, Annual General Meeting notices, regulatory announcements, trading updates and other governance related materials since the year 2000 are available from the group's website.

Post Balance Sheet Events

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

Research and Development

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.

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 20 March 2019 were interested directly or indirectly in 3 percent or more of the company's issued ordinary shares:

	No. of Ordinary Shares	*% Issued Ordinary Shares*
Name		
Rivomore Limited and Myrtledare Corp.	2,428,711	23.9
B.K. Mence (director)	2,228,537	22.0
S.A. Silcock (director)	520,318	5.1

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 20 March 2019 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 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity, 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 2018 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 and the parent company 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.

Key audit matter	*How we addressed the key audit matter in the audit*
Revenue Recognition	
See accounting policy in Note 2 on page 41 and Revenue from contracts with customers in Note 4 on page 48. 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 a key code 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, in particular the unbundling of any contracts in line with the performance obligations, and that the policy itself is not in accordance with IFRS as adopted by the European Union. Further in line with IFRS 15 there is a risk that accounts receivable and deferred income are shown gross in the financial statements where there is not an unconditional right to consideration. For these reasons revenue recognition is considered to be a key audit matter.	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 procedures that are performed around revenue. 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 and implementation 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 consideration given to IFRS 15. For each of the three revenue streams, licenses, maintenance and service revenues, we selected a sample of key contracts entered into during the year for testing, with particular emphasis over large customers and those entered into during Q4. 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 and that delivery of the Accolade license key was delivered before the year-end, and therefore 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. We ensured that of the small, yet growing number of software as a service (SaaS) contracts supplied by the group where Sopheon hosts the offering, a sample of contracts was obtained, and the revenue recognition, to recognize the revenue over the lifetime of the contract, was confirmed as appropriate. Finally, our procedures, in relation to IFRS 15, also considered the presentation of trade receivable and contract liabilities to ensure that both balances reflect the required presentation position. This being the earlier of either, the date the payment becomes due (i.e. when the ‘receivable’ is recognized), or the date the goods or services are delivered (i.e. when a ‘contract asset’ is recognized).

Key audit	How we addressed the key audit matter in the audit
Capitalized Development Costs	
See accounting policy in Note 2 and intangible assets Note 14 on pages 41 and 55 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. Further, a risk exists that assets not available for use have not been impaired as required. 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.	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. We considered whether the development costs capitalized met the criteria for capitalization under IAS 38 and subsequently whether the mechanics over capturing time spent and translating that cost into an accounting entry operated accurately, utilizing the underlying timecard information, the underlying hours and cost were agreed back through to the timecard system. 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 by reviewing the underlying timecard information and the ability for the asset to generate future economic benefits for the business by analyzing the percentage of customers who upgrade to the latest version on release. For each intangible asset sampled all inputs were agreed back to supporting documentation ensuring the existence and accuracy 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. There were no instances where this was an issue in the year.

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 $341,000 (2017: $285,000) which represents 1 percent of revenue (2017: 1 percent of revenue). Performance materiality was set at 70 percent (2017: 70 percent) of this due to the fact that there are multiple components within the group, whilst the group has a good control environment and a low history of misstatements. Materiality for the parent was set at 90 percent of group materiality, being $307,000. We agreed with the audit committee that we would report to them misstatements identified during our audit above $17,000 (2017: $14,000). Finally, component materiality was set at 75 percent of group materiality, at $254,000 (2017: $209,000).

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 into the revenue figure.

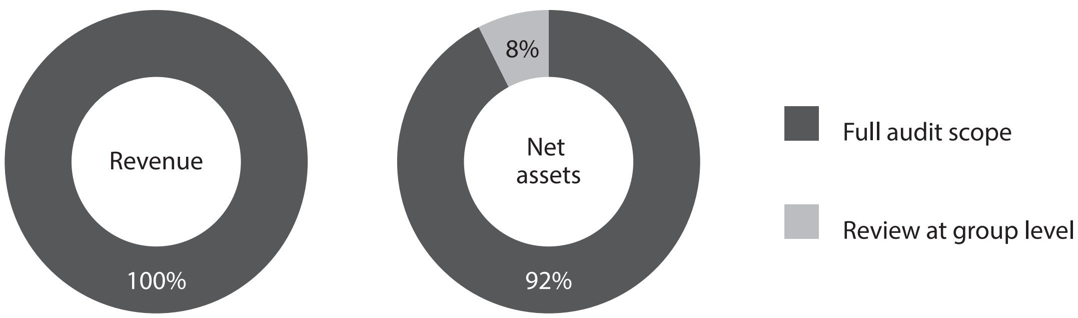
An Overview of the Scope of Our Audit

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 full scope audits, 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.

Revenue has been tested in detail across each entity within the group, regardless of the level of audit 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 92 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 30, 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

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.

Use of our Report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

20 March 2019

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 2018

	Notes	*2018 $'000*	*2017 $'000*
Revenue	3, 4	33,922	28,534
Cost of sales		(9,916)	(7,591)
Gross profit		24,006	20,943
Sales and marketing expense		(8,552)	(7,730)
Research and development expense		(5,078)	(4,266)
Administrative expense		(3,995)	(3,350)
Operating profit		6,381	5,597
Finance income	8	102	6
Finance expense	9	(77)	(468)
Profit before tax		6,406	5,135
Income tax credit	10	514	243
Profit for the year	5	6,920	5,378
Earnings per share			
Basic (US cents)	12	68.60c	71.92c
Fully diluted (US cents)	12	64.98c	55.92c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 $'000	*2017 $'000*
Profit for the year	6,920	5,378
Other comprehensive expense		
Exchange differences on translation of foreign operations	(314)	31
Total comprehensive income for the year	6,606	5,409

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2018

		Group		Company	
	Notes	*2018 $'000*	*2017 $'000*	*2018 $'000*	*2017 $'000*
Assets					
Non-current Assets					
Property, plant and equipment	13	532	417	-	-
Intangible assets	14	6,206	5,821	-	-
Investments in subsidiaries	15	-	-	7,814	8,268
Deferred tax asset	10	2,557	2,010	-	-
Other receivables	16	227	19	5,793	4,664
Total non-current assets		9,522	8,267	13,607	12,932
Current Assets					
Trade and other receivables	17	13,997	15,387	96	96
Cash and cash equivalents	18	17,086	12,729	3,076	1,492
Total current assets		31,083	28,116	3,172	1,588
Total assets		40,605	36,383	16,779	14,520
Liabilities					
Current Liabilities					
Trade and other payables	19	5,621	6,239	518	862
Borrowings	20	355	3,171	-	-
Deferred revenue	4	9,035	8,345	-	-
Total current liabilities		15,011	17,755	518	862
Non-current Liabilities					
Borrowings	20	-	28	-	-
Total non-current liabilities		-	28	-	-
Total liabilities		15,011	17,783	518	862
Net assets		25,594	18,600	16,261	13,658
Equity					
Share capital	23	3,118	3,079	3,118	3,079
Capital reserves	24	8,277	7,720	8,277	7,720
Translation reserve		50	364	(2,159)	(1,380)
Retained profits		14,149	7,437	7,025	4,239
Total equity		25,594	18,600	16,261	13,658

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 2018 was $2,994,000 (2017: profit of $4,199,000).

Approved by the board and authorized for issue on 20 March 2019.

Barry K. Mence
Director

Arif Karimjee
Director

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

		Group		Company	
	Notes	*2018 $'000*	*2017 $'000*	*2018 $'000*	*2017 $'000*
Operating Activities					
Profit for the year		6,920	5,378	2,994	4,199
Adjustments for:					
Finance income	8	(102)	(6)	-	-
Finance costs	9	77	468	4	402
Depreciation of property, plant and equipment	13	297	206	-	-
Amortization and impairment of intangible assets	14	2,230	2,167	-	-
Share-based payment expense		512	173	512	173
Deferred tax credit		(547)	(672)	-	-
Tax refundable in future years		(208)	-	-	-
Operating cash flows before movements in working capital		9,179	7,714	3,510	4,774
Intra-group credits and charges		-	-	(713)	(674)
Decrease in provisions against intra-group loans		-	-	(3,775)	(5,060)
Decrease/(increase) in receivables		1,175	(5,289)	-	(51)
(Decrease)/increase in payables		318	3,241	344	136
Net cash generated from/(used in) operating activities		10,672	5,666	(634)	(875)
Investing Activities					
Finance income	8	102	6	-	-
Purchases of property, plant and equipment	13	(420)	(367)	-	-
Development costs capitalized	14	(2,615)	(2,519)	-	-
Advance of loans to group companies		-	-	(1,484)	(446)
Repayment of loans by group companies		-	-	3,866	1,776
Net cash (used in)/generated from investing activities		(2,933)	(2,880)	2,382	1,330
Financing Activities					
Issues of shares		213	34	213	34
Repayment of borrowings		(170)	(168)	-	-
Decrease in line of credit	20	(2,674)	-	-	
Interest paid		(77)	(261)	(4)	(192)
Dividends paid	25	(337)	-	(337)	-
Net cash used in financing activities		(3,045)	(395)	(128)	(158)
Net increase in cash and cash equivalents		4,694	2,391	1,620	297
Cash and cash equivalents at the beginning of the year		12,729	10,061	1,492	1,197
Effect of foreign exchange rate changes		(337)	277	(36)	(2)
Cash and cash equivalents at the end of the year	18	17,086	12,729	3,076	1,492

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

Group

	Share Capital $'000	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Profits/ (Losses) $'000*	*Total $'000*
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 1 January 2018	3,079	7,720	364	7,437	18,600
Profit for the year	-	-	-	6,920	6,920
Exchange differences on translation of foreign operations	-	-	(314)	-	(314)
Total comprehensive income for the year	-	-	(314)	6,920	6,606
Issues of shares	39	174	-	-	213
Recognition of share-based payments	-	512	-	-	512
Lapse or exercise of share options and warrants	-	(129)	-	129	-
Dividends paid in year	-	-	-	(337)	(337)
At 31 December 2018	3,118	8,277	50	14,149	25,594

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 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 1 January 2018	3,079	7,720	(1,380)	4,239	13,658
Profit and total comprehensive income for the year	-	-	(779)	2,994	2,215
Issues of shares	39	174	-	-	213
Recognition of share-based payments	-	512	-	-	512
Lapse or exercise of share options and warrants	-	(129)	-	129	-
Dividends paid in year	-	-	-	(337)	(337)
At 31 December 2018	3,118	8,277	(2,159)	7,025	16,261

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 22. 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.

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 impacts of IFRS 9 and IFRS 15, and the expected impact of IFRS 16, are described under the 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 1.2769 US Dollars to British Pounds Sterling as at 31 December 2018 and 1.3330 US Dollars to British Pounds Sterling as the average rate prevailing during 2018.

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. 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.

There have been no business combinations in the period covered by this report.

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, is effective for periods commencing on or after 1 January 2018 and supersedes the previous revenue recognition guidance including IAS 18 Revenue and related interpretations. 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 consider that these performance obligations are satisfied over time and that the methods previously used to measure progress continue to be appropriate. These are separate distinct performance obligations within each contract.

In view of the above, the application of IFRS 15 has not had a significant effect on the reported financial performance of the group. However, certain classification requirements of the standard have had an impact on the classification of receivables and payables as contract assets and contract liabilities, as further detailed in Note 4.

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 such leases on its 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 2018 operating lease commitments amounted to $1,536,000. 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 expense.

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.

Financial Instruments

Impact of IFRS 9

IFRS 9 Financial Instruments is effective for annual periods beginning on or after 1 January 2018 and has been applied in the financial statements in respect of the current year. The adoption of this standard has had no significant impact on the group's statements of financial position and equity.

1. Financial Assets

Financial assets do not include prepayments. Management determines the classification of financial assets at initial recognition.

Amortized Cost

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions for current and non-current trade receivables are recognized based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognized within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial assets held at amortized cost comprise trade and other receivables, and cash and cash equivalents in the consolidated statements of financial position.

The comparatives included within the annual report are prepared under IAS 39. Consequently in the prior year the financial assets are classified as 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 or services (e.g. trade receivables) but also include cash and cash equivalents and other types of contractual monetary assets. 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.

Further, in the prior year 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 provision.

2. Financial Liabilities

The group classifies its financial liabilities in the category of financial liabilities at amortized cost. All financial liabilities are recognized in the statement of financial position when the company becomes a party to the contractual provision or the instrument.

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, 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. 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 the sales contract involves multiple service obligations the allocation of the transaction price is performed proportionally based on the standalone selling price for each obligation. The way in which management assigns the selling price to each separate performance obligation is based on the cost of satisfying the performance obligation plus an appropriate margin.

3. SEGMENTAL ANALYSIS

All of the group's revenue in respect of the years ended 31 December 2018 and 2017 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 2018	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	21,614	12,308	33,922
Operating profit before interest and tax	6,068	313	6,381
Profit before tax	6,100	306	6,406
Finance income	102	-	102
Finance expense	(70)	(7)	(77)
Depreciation and amortization	(2,464)	(63)	(2,527)
EBITDA	5,273	3,600	8,873
Balance Sheet			
Fixed asset additions	272	148	420
Capitalization of internally generated development costs	2,615	-	2,615
Total assets	26,246	14,359	40,605
Total liabilities	(10,041)	(4,970)	(15,011)

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)

One customer, located in North America, accounted for approximately 11 percent of the group's revenues in 2018. Another customer, also located in North America, accounted for approximately 7 percent of the group's revenues in 2017.

Revenues attributable to customers in North America in 2018 amounted to $20,985,000 (2017: $16,697,000). Revenue attributable to customers in the rest of the world amounted to $12,937,000 (2017: $11,837,000) of which $11,555,000 (2017: $11,038,000) was attributable to customers in Europe.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

Revenue attributable to each of the group's primary geographic markets is analyzed in Note 3 above. The following table provides further disaggregation of revenue in accordance with the IFRS9 requirement to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2018 $'000	*2017 $'000*
Software licenses and subscriptions	10,391	9,332
Consulting and implementation services	10,771	8,869
Maintenance	10,822	9,159
Hosting	1,938	1,175
	33,922	28,534

Contract Balances

Contract assets and contract liabilities are included within "Trade and other receivables" and "Deferred revenue" respectively on the face of the statement of financial position. They arise because cumulative payments received from customers at each balance sheet date do not necessarily equal the amount of revenue recognized on the contracts.

	Contract Assets $'000	*Contract Liabilities $'000*
At 1 January 2018	382	8,345
Transfers in the period from contract assets to trade receivables	(382)	-
Revenue recognized ahead of cash (or rights to cash)	1,109	-
Transfers in the period from contract liabilities to revenue	-	(8,345)
Cash (or rights to cash) received in advance of revenue recognition	-	9,035
At 31 December 2018	1,109	9,035

The increase in contract assets is largely attributable to invoicing terms relating to three substantial contracts where delivery has occurred or work has been performed ahead of invoicing milestones. The group has taken advantage of the relief in IFRS 15 to reflect in the current year the aggregate effect of all modifications that occur in the year before adoption. The impact of adoption at 31 December 2018 has been to reduce accounts receivable by $469,000 of advance billings relating to certain implementation and consultancy services, with a corresponding reduction in deferred revenue. There was no impact on revenue recognition.

5. PROFIT FOR THE YEAR

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

	2018 *$'000*	*2017* *$'000*
Net foreign exchange gains	(31)	(6)
Research and development costs (excluding amortization)	2,848	2,099
Amortization of intangible assets	2,230	2,167
Depreciation of property, plant and equipment	297	206
Operating lease rentals – land and buildings	598	562
Operating lease rentals – other	96	103

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.

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

	2018 *$'000*	*2017* *$'000*
Profit for the year before tax	6,406	5,135
Interest payable	77	468
Interest receivable	(102)	(6)
Write-back of investment provision	(35)	-
Amortization of intangible assets	2,230	2,167
Depreciation of property, plant and equipment	297	206
EBITDA	8,873	7,970

6. AUDITORS' REMUNERATION

During the year the group obtained the following services from its auditors and associated firms.

	2018 *$'000*	*2017* *$'000*
Audit of the financial statements of the group	68	64
Audit of the financial statements of the UK subsidiary	5	5
Review of interim financial information	16	16
Other services	-	13
Tax compliance services	22	14

7. STAFF COSTS

	2018 $'000	2017 $'000
Wages and salaries	17,181	14,439
Social security costs	1,388	1,171
Pension contributions	419	369
Employee benefits expense	942	823
	19,930	16,802

Included within the above are staff costs capitalized as development expenditure amounting to $2,615,000 (2017: $2,519,000). Included within wages and salaries are bonus and sales commission costs amounting to $3,027,000 (2017: $2,538,000).

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

	2018 Number	2017 Number
Development and operations	97	83
Sales and management	45	42
	142	125

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

The remuneration of all directors was as follows:

	2018 $'000	2017 $'000
Fees and emoluments	1,141	1,073
Pension contributions	23	25
	1,164	1,098

During the year 70,000 share options (2017: Nil) were exercised by directors, details of which are set out in the Report on Directors' Remuneration on page 23. Pension contributions are to personal defined contribution schemes and have been made for three directors (2017: three) who served during the year.

Full details of directors' remuneration are disclosed in the Report on Directors' Remuneration on page 23.

Staff costs in the parent company amounted to $602,000 including bonuses (2017: $585,000). The average monthly number of staff of the parent company during the year included one full time and two part time (2017: one and two).

8. FINANCE INCOME

	2018 $'000	2017 $'000
Income on financial assets measured at amortized cost		
Interest income on bank deposits	102	6

9. FINANCE EXPENSE

	2018 $'000	2017 $'000
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(77)	(468)

Included in interest expense in 2017 is interest on the group's 8% Convertible Lon Stock amounting to $399,000, including a one-off payment of $201,000 to holders in recognition of the loss of their interest and repayment rights as a result of the early conversion of the whole of the loan stock into ordinary shares in December 2017.

10. INCOME TAX CREDIT

	2018 $'000	2017 $'000
Income tax credit for the year – current tax	514	243

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

	2018 $'000	2017 $'000
Profit before tax	6,406	5,135
Tax charge at the UK corporation tax rate of 19% (2017: 19.25%)	(1,217)	(988)
Adjustment for differing rates of corporate taxation in overseas jurisdictions	(401)	(168)
Tax effect of expenses that are not deductible in determining taxable profits	(154)	(76)
Temporary differences arising from the capitalization and transfer of development investments	56	70
Utilization of prior year losses	1,476	733
Current tax expense for the year	(240)	(429)
US Alternative Minimum Tax refundable	208	-
Recognition of deferred tax asset	547	672
Total income tax credit for the year	514	243

The current tax expense represents German corporation tax payable by Sopheon GmbH and US state taxes payable by the group's US subsidiaries.

US corporate Alternative Minimum Tax (AMT) has been repealed in respect of tax years beginning on or after 1 January 2018. AMT paid by US corporations in respect of periods prior to that date will be refundable over a four year period to December 2021.

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, 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:

	2018 $'000	*2017 $'000*
Amount recognized during the year	547	672
Deferred tax asset at 31 December 2018	2,557	2,010

The unrecognized deferred tax asset is made up as follows:

	2018 $'000	*2017 $'000*
Shortfall of tax depreciation compared to book depreciation	144	114
Effect of timing differences arising from capitalization of internally generated development costs	(1,072)	(1,010)
Unrelieved trading losses	8,189	10,943
Unrecognized deferred tax asset at 31 December 2018	7,261	10,047

At 31 December 2018, tax losses estimated at $53m (2017: $63m) 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 $2.6m (2017: $2.0m) and a further potential deferred tax asset of $8.2m (2017: $10.9m), based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of $8.8m, representing $1.9m of the potential deferred tax asset (2017: $9.0m and $1.9m 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 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 2018 was $2,994,000 (2017: profit of $4,199,000). The parent company's result includes the partial recognition amounting to $1,130,000 (2017: $4,664,000) of long-term loans due to the parent company from subsidiary companies, which previously had been subject to full provision, together with a release of $2,645,000 (2017: $397,000) of the amount of such 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

	2018 $'000	2017 $'000
Basic earnings per share		
Profit after tax	6,920	5,378
	'000s	'000s
Weighted average number of ordinary shares for the purpose of basic earnings per share	10,088	7,478
Earnings per share	68.60c	71.92c
	'000s	'000s
Diluted earnings per share		
Profit after tax	6,920	5,378
Reduction in interest expense in respect of convertible loan stock	-	399
Diluted profit after tax	6,920	5,777
	'000s	'000s
Weighted average number of ordinary shares for the purpose of basic earnings per share	10,649	10,331
Diluted earnings per share	64.98c	55.92c

For the purpose of calculating the diluted earnings per ordinary share in 2018 and 2017, in respect of the outstanding 875,821 share options (details of which are set out in Note 28), the treasury stock method is used. This assumes that options to subscribe for Sopheon shares at prices below the average share price prevailing during the year are exercised on 1st January of the relevant year (or, if later, on the date of grant) and that the proceeds from exercise of such options are reinvested in treasury shares at the average price prevailing during the year.

For the purpose of calculating the diluted earnings per ordinary share in 2017, the profit attributable to ordinary shareholders is also adjusted on the assumption that the group's convertible loan stock was converted into ordinary shares at 1st January in that year.

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 whole of the outstanding stock in December 2017. No convertible loan stock was outstanding during 2018.

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment $'000*	*Furniture & Fittings $'000*	*Total $'000*
Cost			
At 1 January 2017	2,108	363	2,471
Additions	286	81	367
Exchange differences	30	19	49
At 1 January 2018	2,424	463	2,887
Additions	299	121	420
Exchange differences	(17)	(7)	(24)
At 31 December 2018	2,706	577	3,283
Accumulated Depreciation			
At 1 January 2017	1,877	353	2,230
Depreciation charge for the year	183	23	206
Exchange differences	24	10	34
At 1 January 2018	2,084	386	2,470
Depreciation charge for the year	264	33	297
Exchange differences	(13)	(3)	(16)
At 31 December 2018	2,335	416	2,751
Carrying Amount			
At 31 December 2018	371	161	532
At 31 December 2017	340	77	417

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 2017	21,646	1,022	22,668
Additions (internally generated)	2,519	-	2,519
At 1 January 2018	24,165	1,022	25,187
Additions (internally generated)	2,615	-	2,615
At 31 December 2018	26,780	1,022	27,802
Amortization			
At 1 January 2017	17,199	-	17,199
Charge for the year	2,167	-	2,167
At 1 January 2018	19,366	-	19,366
Charge for the year	2,230	-	2,230
At 31 December 2018	21,596	-	21,596
Carrying Amount			
At 31 December 2018	5,184	1,022	6,206
At 31 December 2017	4,799	1,022	5,821

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 (2017: 3 percent). The discount rate used was 9 percent (2017: 14.6 percent). Sensitivity analysis performed on these projections demonstrates significant valuation headroom above the carrying value of goodwill.

Company
The company has no intangible assets.

15. INVESTMENT IN SUBSIDIARIES

	Company $'000
At cost less amounts provided	
At 31 December 2017	8,268
Exchange difference	(454)
At 31 December 2018	7,814

Details of the company's subsidiaries at 31 December 2018 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 RECEIVABLES

	Group		Company	
	2018 *$'000*	*2017* *$'000*	*2018* *$'000*	*2017* *$'000*
Other receivables	19	19	-	-
Tax refundable in future years	208	-	-	-
Amounts due from subsidiary undertakings (net of provisions)	-	-	5,793	4,664
	227	19	5,793	4,664

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

The tax refundable represents US Alternative Minimum Tax, further details of which appear in Note 10.

A partial provision of $41,315,000 (2017: $47,681,000) has been made against amounts totaling $47,108,000 (2017: $52,345,000) 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.

The expected credit loss provision against amounts due to the parent company from subsidiary undertakings has been assessed using a Stage 3 approach as detailed below.

	Company *$'000*
At 31 December 2017	47,681
Net repayments	(2,382)
Net management charges	713
Release of provision	(1,129)
Exchange adjustments	(3,568)
At 31 December 2018	41,315

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Trade receivables	12,014	14,205	-	-
Other receivables	56	57	77	81
Total receivables	12,070	14,262	77	81
Prepayments	818	743	19	15
Accrued income	1,109	382	-	-
	13,997	15,387	96	96

The carrying value of trade and other receivables classified at amortized cost approximates fair value.

Trade receivables amounting to $408,000 (2017: $3,750,000) were pledged to Silicon Valley Bank as collateral to secure borrowings against the group's revolving line of credit (see Note 20).

The group has adopted the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. As further detailed in Note 22, the group's customers almost exclusively comprise major international corporations of good credit standing mostly based in the USA and the EU, and the group's historical credit loss experience is negligible. Accordingly, the trade receivables and contract assets are assessed as homogenous for the purposes of grouping for credit risk, and expected loss rate is expected to be nil leading to no provision for impairment being recorded.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cash at bank	9,208	3,977	3,076	1,492
Short-term bank deposits	7,878	8,752	-	-
	17,086	12,729	3,076	1,492

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 $64,000 (2017: $33,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 $'000	*2017 $'000*	*2018 $'000*	*2017 $'000*
Trade payables	636	1,126	51	71
Other payables	471	373	120	135
Tax and social security costs	1,104	1,148	-	-
Accruals	3,410	3,592	347	656
	5,621	6,239	518	862

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	
	2018 $'000	*2017 $'000*	*2018 $'000*	*2017 $'000*
Current Loans and Borrowings				
Line of credit	326	3,000	-	-
Loan notes (current portion)	29	171	-	-
Total current loans and borrowings	355	3,171	-	-
Non-current Loans and Borrowings				
Loan notes (non-current portion)	-	28	-	-
Total non-current loans and borrowings	-	28	-	-
Total loans and borrowings	355	3,199	-	-

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

	2017 $'000	*Cash Flows $'000*	*Settled Through Equity $'000*	*2018 $'000*
Line of credit	3,000	(2,674)	-	326
Loan notes	199	(170)	-	29
Total loans and borrowings	3,199	(2,834)	-	355

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.

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 2018 $'000	*Other 2018 $'000*	*Land & Buildings 2017 $'000*	*Other 2017 $'000*
Due within one year	584	88	542	105
Due after one year and within five years	793	71	1,348	164
	1,377	159	1,890	269

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	*2018 $'000*	*2017 $'000*	*2018 $'000*	*2017 $'000*
Current Financial Assets					
Trade receivables	17	12,014	14,205	-	-
Other receivables	17	56	57	77	81
Amounts due from subsidiary companies	16	-	-	5,793	4,664
Accrued income	17	1,109	743	-	-
Cash and cash equivalents	18	17,086	12,729	3,076	1,492
		30,265	27,734	8,965	6,237
Non-current Financial Assets					
Other receivables	16	227	19	-	-

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

2. Financial Liabilities

		Group		Company	
	Notes	*2018 $'000*	*2017 $'000*	*2018 $'000*	*2017 $'000*
Current Financial Liabilities					
Trade payables	19	636	1,126	51	71
Other payables	19	471	373	120	135
Accruals	19	3,410	3,592	347	656
Loans and borrowings	20	355	3,171	-	-
		4,872	8,262	518	862
Non-current Financial Liabilities					
Loans and borrowings	20	-	28	-	-
		-	28	-	-
		4,872	8,290	518	862

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 negligible. 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 2018, the largest single customer accounted for 11 percent of group revenues (2017: 7 percent of group revenues in respect of a different customer).

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

A feature of recent years is that major corporations have slowed down payments or insist on long credit terms, and this is reflected in the ageing profile of the group's receivables. However, as noted above the group's bad debts experience is negligible. Impairments that do arise are not 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 contractually enforceable, but to derecognize revenue 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 2018	12,014	10,004	1,568	443
At 31 December 2017	14,205	12,293	1,114	798

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:

		2018			*2017*	
	$'000 Gross Value	*$'000 Provision*	*$'000 Carrying Value*	*$'000 Gross Value*	*$'000 Provision*	*$'000 Carrying Value*
Trade receivables						
North America	8,544	-	8,544	9,010	-	9,010
Europe	3,470	-	3,470	5,195	-	5,195
	12,014	-	12,014	14,205	-	14,205

The group records impairment losses on its trade receivables separately from the gross amounts receivable. No impairment losses were recorded during 2018 or 2017. 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.

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 2018	*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	1,107	-	-	-	1,107
Line of credit	326	-	-	-	326
Loan notes	29	-	-	-	29
Future interest – loan notes	-	-	-	-	-
Total financial liabilities	1,462	-	-	-	1,462

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
Future interest – convertible loan stock	210	-	-	-	210
Total financial liabilities	4,800	89	28	-	4,917

Company

At 31 December 2018	*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	171	-	-	-	171
Total financial liabilities	171	-	-	-	171

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
Future interest – convertible loan stock	210	-	-	-	210
Total financial liabilities	416	-	-	-	416

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 $29,000 at 31 December 2018. This liability does not give rise to interest rate risk. The group also has a revolving US Dollar line of credit, on which $326,000 in aggregate was outstanding at 31 December 2018, and which bears interest at a margin of 2.75 percent above the WSJ Prime Rate, currently representing an effective rate of 8.25 percent. Should this rate have increased by 1 percent the annualized effect would have been to increase finance costs by $3,000.

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 2018 was $7,878,000. During 2018 interest rates on money market deposits averaged at or below 0.5 percent in respect of Euro and Sterling deposits and at around 2 percent in respect of US Dollar 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 $39,000.

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.

	2018	*2017*	*2018*	*2017*
	Increase/ (Decrease) in Profit After Tax	*Increase/ (Decrease) in Profit After Tax*	*Effect on Exchange Differences on Translation of Assets and Liabilities of Foreign Operations*	
	$'000	*$'000*	*$'000*	*$'000*
Strengthening of Sterling in US Dollar terms by 10c	9	(33)	194	98
Weakening of Sterling in US Dollar terms by 10c	(10)	34	(194)	(98)
Strengthening of Euro in US Dollar terms by 10c	275	326	268	5
Weakening of Euro in US Dollar terms by 10c	(275)	(325)	(270)	(7)

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

	2018	*2017*
	Increase/(Decrease) in Profit After Tax	
	$'000	*$'000*
Strengthening of Sterling in US Dollar terms by 10c	123	29
Weakening of Sterling in US Dollar terms by 10c	(123)	(29)
Strengthening of Euro in US Dollar terms by 10c	103	71
Weakening of Euro in US Dollar terms by 10c	(103)	(71)

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	*2018 Number*	*2018 $'000*	*2017 Number*	*2017 $'000*
Ordinary shares of 20 pence each	10,143,766	3,118	9,999,378	3,079

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, 144,388 ordinary shares were issued in connection with the exercise of options at exercise prices ranging from 55p to 565p.

24. CAPITAL RESERVES

Group

	Share Premium $'000	Equity Reserve $'000	Special Reserve $'000	Total $'000
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 1 January 2018	2,084	563	5,073	7,720
Issues of shares	174	-	-	174
Recognition of share-based payments	-	512	-	512
Lapsing or expiry of share options	-	(129)	-	(129)
At 31 December 2018	2,258	946	5,073	8,277

Company

	Share Premium $'000	Equity Reserve $'000	Special Reserve $'000	Total $'000
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 1 January 2018	2,084	563	5,073	7,720
Issues of shares	174	-	-	174
Recognition of share-based payments	-	512	-	512
Lapsing or expiry of share options	-	(129)	-	(129)
At 31 December 2018	2,258	946	5,073	8,277

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 2018, the Esot held 36,472 ordinary shares of 20p each in the company (2017: 36,472) which represents 0.4 percent (2017: 0.3 percent) of the company's ordinary share capital. The equity reserve includes a deduction of $46,000 (2017: $46,000) which represents the cost of the shares held by the Esot at 31 December 2018.

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 2018 and at 31 December 2017, 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

	2018 $'000	2017 $'000
Dividends paid in year		
Final dividend for 2017 of 2.5p per share paid in July 2018	337	-

The directors are proposing a final dividend of 3.25 pence per share in respect of the year ended 31 December 2018 amounting to £330,000 ($421,000).

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 $419,000 (2017: $369,000) 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:

	2018 $'000	2017 $'000
Emoluments and benefits	2,957	2,523
Pension contributions	62	58
Share-based payments	369	98
	3,388	2,679

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:

	2018 $'000	2017 $'000
Net amounts repaid by subsidiaries	(2,382)	(1,330)
Net management charges to subsidiaries	713	674

The amounts owed by subsidiary companies to the parent company at 31 December 2018 totaled $47,108,000 (2017: $52,345,000). An amount of, $5,793,000 (2017: $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. Amounts owed by subsidiary companies to the parent company are unsecured and are subordinated to the claims of all other creditors.

During 2018 and 2017, 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 2017 and 2018 are as follows:

	Number of Share Options	*Weighted Average Exercise Price £*
Outstanding at 1 January 2017	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
Options granted in 2018	288,278	7.03
Options exercised in 2018	(144,388)	1.09
Options lapsed in 2018	(13,658)	3.69
Outstanding at 31 December 2018	875,821	3.57
Exercisable at 31 December 2018	585,264	2.19
Exercisable at 31 December 2017	544,000	0.94

During 2018, options were exercised over 288,278 ordinary shares at exercise prices ranging from 55p to 565p. During 2017, share options were exercised over 36,707 ordinary shares at exercise prices ranging from 47.5p to 150p. The options outstanding at the end of the year have a weighted average contractual life of 6.8 years (2017: 6.4 years).

During the year share options were granted on 11 February 2018, when the exercise price of options granted was 565p and the estimated fair value was 334.5p and on 4 July 2018, when the exercise price of options granted was 900p and the estimated fair value was 532.9p. During the preceding 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.

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

Date of Grant	*July 2018*	*February 2018*	*February 2017*
Share price at time of grant	900p	565p	467.5p
Exercise price	900p	565p	467.5p
Expected volatility	40%	40%	40%
Risk-free rate	5%	5%	5%
Expected dividend yield	0.3%	0.4%	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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